HOUSE OF LORDS

Library Note

Budget 2014: Reaction

This Library Note provides a brief summary of the key measures announced on 19 March 2014 in the Chancellor's Budget Statement. The Note also outlines 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.

Tom Brown and Ian Cruse
20 March 2014
LLN 2014/012

House of Lords Library Notes are compiled for the benefit of Members of the House of Lords and their personal staff, to provide impartial, politically balanced briefing on subjects likely to be of interest to Members of the Lords. Authors are available to discuss the contents of the Notes with the Members and their staff but cannot advise members of the general public.

Any comments on Library Notes should be sent to the Head of Research Services, House of Lords Library, London SW1A 0PW or emailed to vollmerp@parliament.uk.

Table of Contents

1. Introduction ... 1
1.1 Projections for Growth and Public Finances ... 1
1.2 Public Spending ... 1
1.3 Savings and Pensions ... 2
1.4 Business ... 2
1.5 Taxes and Duties ... 3
1.6 Homes and Infrastructure ... 3
1.7 Coinage ... 4
2. Reaction: Leader of the Opposition ... 4
3. Reaction: Outside Parliament ... 5
3.1 TUC: A Budget to Shrink the State and Help the Rich ... 5
3.2 CBI: A Budget to put Wind in the Sails of Business Investment ... 6
3.3 IoD: Responsible and Imaginative for Growth, Exports and Investment ... 6
3.4 PCS Union: A Budget that does not Address Crises Facing Communities ... 6
3.5 EEF: Chancellor Delivers on his Word for Manufacturers ... 7
3.6 National Pensioners Convention: Moving to a Reliance on the Market ... 7
3.7 British Bankers Association: Help for Savers, Exporters and Businesses ... 8
3.8 UNISON: Short on Fairness, Short of Ideas ... 8
3.9 Robert Peston (BBC): A Budget for Business and Older People ... 8
3.10 Nick Robinson (BBC): Osborne's Savings Surprise ... 9
3.11 Centre for Policy Studies: At Times a Thatcherite Budget ... 9
3.12 Green Party: Business as Usual—Budget is a Triumph for Cronyism ... 10
3.13 Policy Exchange: A Budget for the Silver Savers ... 10
3.14 Adam Smith Institute: A Boring Budget ... 11
3.15 IPPR: The UK's Economy is not Becoming more Resilient ... 11
3.16 Institute for Economic Affairs: Budget Represents a Missed Opportunity ... 12
3.17 New Statesman: George Osborne Shamelessly Courts the Pensioner Vote ... 12
3.18 The Spectator: Five Scary Graphs ... 13
3.19 The Guardian: Not Consistency of Purpose, but Carefree Expediency ... 13
3.20 Larry Elliott: A Budget to Woo better off Voters ... 14
3.21 Peter Oborne: A Triumph for Mr Osborne and the Coalition ... 14
3.22 Mary Riddell and Benedict Brogan: A Labour Trap and a Pensions Revolution ... 14
3.23 Ian King: Osborne Tries to Keep Core Voters Sweet ... 15

3.24 James Moore: A Lucky Chancellor and his Devious Moves 15
3.25 Financial Times: A Deft Blend of Prudence and Politics 15
3.26 Martin Wolf: Handouts to Rich and the Old Paper over a Bleak Future 16

1. Introduction

The first section of this Library Note outlines key measures announced by the Chancellor of the Exchequer, George Osborne, in the 2014 Budget. Fuller initial analysis of the 2014 Budget can be found in the House of Commons Library Standard Note, *Budget 2014: A Summary* (19 March 2014, SN/EP/06848). Section two of the Note summarises the response to the Budget Statement by the Leader of the Opposition, Ed Miliband. Finally, 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

Announcing the 2014 Budget as one designed to build a "resilient economy", (HC *Hansard*, 19 March 2014, col 781) the Chancellor set out his spending plans in the House of Commons on 19 March 2014.

The Office for Budget Responsibility (OBR) published its latest economic forecasts[1] to accompany the Chancellor's Budget Report.[2] In these forecasts, the OBR revised its GDP growth estimate for 2014 to 2.7 percent—up from 1.8 percent at the time of the last Budget, and up from 2.4 percent in December 2013. In addition, the OBR raised its growth forecast for 2015 from 2.2 percent to 2.3 percent, with the growth forecast for 2016 remaining unchanged at 2.6 percent. The OBR revised down its growth forecast for 2017 and 2018—from 2.7 percent to 2.6 percent and 2.7 percent to 2.5 percent respectively. The OBR expected GDP to return to its pre-crisis peak in the third quarter of 2014.

The OBR also expected public sector net borrowing to be £107.8 billion in the current financial year (excluding transfers related to the Royal Mail Pension Plan and quantitative easing), £3.4 billion lower than its December 2013 forecast and £7 billion lower than in 2012–13. Borrowing was forecast to fall by a further £12.4 billion in 2014–15, to £95.5 billion, moving below £100 billion for the first time in six years. Further, the OBR revised borrowing lower in each subsequent year of its forecast, with this downward revision averaging almost £6 billion a year from 2015–16 to 2017–18, before falling to £2.6 billion in 2018–19. In that year, the OBR forecast that the public finances will move into surplus for the first time in 18 years, with the cyclically-adjusted current budget returning a surplus of 1.5 percent of GDP. Overall, the OBR expected public sector net debt to peak at 78.7 percent of GDP in 2015–16. This is predicted to fall "by a small margin" in 2016–17 before falling more rapidly to 74.2 percent of GDP in 2018–19.

1.2 Public Spending

Pledging to "fix the roof when the sun is shining, to protect Britain from future storms", the Chancellor announced that in addition to public spending cuts planned this year and next, subject to parliamentary approval there will also be cuts in the next Parliament (col 784). In addition to these measures to reduce public spending, a revised 'Charter for Budget Responsibility' is to be presented to Parliament alongside the Autumn Statement.

Further public spending pledges announced by the Chancellor included continued pay restraint in the public sector, making the £1 billion reduction in government departmental spending for

[1] Office for Budget Responsibility, *Office for Budget Responsibility: Economic and Fiscal Outlook*, March 2014, Cm 8820.
[2] HM Treasury, *Budget 2014*, 19 March 2014, HC 1104 of session 2013–14.

2015–16 permanent, and the introduction of a cap on welfare (first announced during the Spending Round 2013). Subject to parliamentary approval, this cap will be £119 billion in 2015–16, rising in line with forecast inflation to £127 billion in 2018–19.

1.3 Savings and Pensions

Declaring that policies for savers "stand alongside deficit reduction as a centrepiece of our long-term economic plan", the Chancellor announced a package of measures to incentivise saving (col 792). One of the key announcements was a plan to "dramatically [increase] the simplicity, flexibility and generosity of individual savings accounts". The existing cash and stocks and shares individual savings accounts (ISAs) will be merged into a new ISA from 1 July 2014, with the annual tax-free savings limit being increased to £15,000. Savers will be allowed to transfer all of their existing ISAs from stocks and shares into cash, or the other way round. The rate for junior ISAs will also be raised to £4,000. In addition, other measures include the abolition of the 10p tax rate for savers, and a lifting of the cap on Premium Bonds from £30,000 to £40,000 in June, and to £50,000 next year.

In another key announcement, the Chancellor declared there would be a change in the tax treatment of defined contribution pensions, "to bring [them] into line with the modern world" (col 793). All tax restrictions on pensioners' access to their pension pots are to be removed, ending the requirement to buy an annuity. In addition, the taxable part of a pension pot taken as cash lump sum on retirement is to be charged at the 20 percent tax rate, rather than current 55 percent rate. There is to be an increase in the total pension savings individuals can take as a lump sum to £30,000, and a new pensioner bond, "paying market leading rates", is to be introduced by National Savings and Investments in January next year, open to everyone aged 65 and over (col 792).

1.4 Business

Calling for "our businesses to export more, build more, invest more and manufacture more", the Chancellor announced that the annual investment allowance will be doubled to £500,000 until the end of 2015 (col 787). In addition, the amount of direct export finance currently available to UK businesses from the Government will double to £3 billion, with the scheme made permanent and interest rates on that lending cut by a third. Business rate discounts and enhanced capital allowances in enterprise zones will be extended for three years, with reform of air passenger duty also set take place, so that all long-haul flights fall within the same band B tax rate that is now charged on flights to the United States. Further, private jets will now be subject to air passenger duty, and the Government will provide start-up support for new air routes from regional airports.

Claiming that measures in the Budget affecting business would "cut the cost of manufacturing in Britain", the Chancellor also announced a £7 billion package to cut energy bills for British manufacturers (col 790). These include capping the carbon price support rate at £18 per tonne of carbon dioxide from 2016–17 until 2020, which the Chancellor stated would save a mid-sized manufacturer almost £50,000 annually; extension of the existing compensation scheme for energy-intensive industries for a further four years to 2019–20; introduction of new compensation worth almost £1 billion to protect energy-intensive manufacturers from the rising renewable energy obligation costs and feed-in tariffs; and exemption from the carbon price floor of the electricity from combined heat and power plants.

In addition, it was announced that the Government would extend the grants for smaller businesses to support over 100,000 more apprenticeships, and develop new degree-level apprenticeships as well.

It was also announced that the Government would "take forward" all recommendations of the Wood report into North Sea oil and gas[3], introducing new allowances for ultra-high pressure, high temperature fields to maximise investment in the industry (col 787).

1.5 Taxes and Duties

In another key announcement, the Chancellor stated that starting next year the personal tax allowance will rise to £10,500, up from the £10,000 figure due to take effect next month (cols 791–2). Further, the threshold for the 40 percent higher rate of income tax is set to rise from £41,450 to £41,865 next month and £42,285 next year.

In other measures relating to tax and duty:

- inheritance tax is to be waived for members of the emergency services who give their lives in their job;
- tax on homes owned through a company is to be extended to residential properties worth more than £500,000, down from £2 million at present;
- VAT is to be waived on fuel for air ambulances and rescue boats;
- bingo duty is to be reduced by half, to 10 percent;
- duty on fixed-odds betting terminals is to be increased to 25 percent;
- duty on beer is to be cut by 1p a pint;
- duty on spirits and cider will not increase; and
- duty on tobacco is set to rise by 2 percent above inflation.

(cols 786–91)

In addition to the tax and duty measures above, the Chancellor stated that "those who have signed up to disclosed tax avoidance schemes pay their taxes, like everyone else, up front" (col 785). The Chancellor claimed the OBR estimated this measure would bring forward £4 billion of tax receipts. In addition, it was announced that HMRC would be given "modern powers" to collect debts from bank accounts belonging to individuals who have repeatedly refused to pay (col 786). It was also announced that action would be taken to curb potential misuse of the enterprise investment and venture capital trust schemes.

1.6 Homes and Infrastructure

The Chancellor announced that £500 million of finance is to be made available to small house building firms, £150 million of finance is to be made available to support people building their own homes, and the Help to Buy equity loan scheme is set to be extended until 2020.

Approval was announced for a £270 million guarantee for the Mersey Gateway Bridge, and the Chancellor confirmed that a development corporation would be set up to oversee construction of a new garden city at Ebbsfleet in Kent. In addition, legislation is to be brought forward to

[3] Sir Ian Wood, *UKCS Maximising Recovery Review: Final Report*, 24 February 2014.

allow the Welsh Government tax and borrowing powers to fund infrastructure needs, including improvements to the M4; £140 million was announced for the repair and maintenance of flood defences; and £200 million marked for road repairs.

1.7 Coinage

The Chancellor further announced that the £1 coin is to be replaced by the Royal Mint from 2017:

> Of course, the prerequisite of sound money is a sound currency, and the £1 coin has become increasingly vulnerable to forgery. It is now among the oldest coins in circulation, and one in 30 £1 coins is counterfeit. That costs businesses and the taxpayer millions each year, so I can tell the House that we will move to a new, highly secure £1 coin. It will take three years. We will consult with industry. Our new £1 coin will blend the security features of the future with inspiration from our past. In honour of our Queen, the coin will take the shape of one of the first coins she appeared on: the threepenny bit. A more resilient pound for a more resilient economy.
>
> (col 784)

2. Reaction: Leader of the Opposition

The Leader of the Labour Party, Ed Miliband, began his response to the Budget by criticising the Chancellor on living standards:

> Living standards are down, month after month, year after year. In 2011, living standards, down; 2012, living standards, down; 2013, living standards, down. Since the election, working people's living standards are £1,600 a year down.
>
> (col 795)

Mr Miliband then stated that while the personal tax allowance was set to increase, the Chancellor did not mention in his Statement that "24 tax rises [have also been] introduced", all of which left people worse off (col 796). In addition, he insisted that more individuals would be "dragged" into paying the 40p tax rate (col 797).

Criticising the Government's decision to reduce the top rate of income tax to 45p, Mr Miliband stated:

> The Chancellor painted a picture of the country today that millions of people will simply not recognise. This is [Prime Minister] Cameron's Britain [in] 2014, with 350,000 people going to food banks, 400,000 disabled people paying the bedroom tax, one million more people paying 40p tax and 4.6 million families facing cuts to tax credits. But there is one group that is better off—much better off. We all know who they are: the Chancellor's chums, the Prime Minister's friends [...] The Prime Minister rolls his eyes, because he does not want to talk about the millionaires' tax cut. There was no mention of it in the Budget speech. They are the beneficiaries of this year's millionaires' tax cut.
>
> (col 796)

Mr Miliband then criticised the Leader of the Liberal Democrats, Nick Clegg: "Day after day he claims that he does not support Tory policy, but day after day he votes for Tory policy" (col 796).

Claiming that the Chancellor had failed to rebalance the economy, Mr Miliband insisted that "Manufacturing output has fallen by 1.3 percent, construction output has fallen by 4.2 percent and infrastructure investment is down by 11.3 percent" (col 796). Further, he asserted that the Government had overseen the lowest level of house building since the 1920s, and that rents had risen twice as fast as wages.

Criticising the Chancellor for failing to make the economic changes required, Mr Miliband called for an alternative:

> We needed a Budget today that would have made the long-term changes that our economy needs, in housing, banking and energy. But they cannot do it. They will not stand up to the vested interests. They will not tackle developers sitting on land, even though they cannot solve the housing crisis without that. They will not force the banks to improve competition even though small businesses say they need it. They will not stand up to the energy companies and freeze energy bills, even though the public support it [...]
>
> We do not need a party for the privileged few; we need a party for the many. That is why a Labour Government will freeze energy bills, guarantee jobs for unemployed young people, cut business rates, reform the banks, get 200,000 homes built a year and abolish the bedroom tax. This is the Budget that confirms that people are worse off under the Tories—a worse-off Budget from an out-of-touch Chancellor. Britain can do better than them. Britain needs a Labour Government.
>
> (cols 797–9)

3. Reaction: Outside Parliament

3.1 TUC: A Budget to Shrink the State and Help the Rich

Frances O'Grady, the TUC General Secretary, in her response to the Budget was critical. She argued that it was a pre-election Budget, with its "give-aways aimed at the better off rather than lifting the living standards of the many". She contended that it would be paid for through "further years of austerity", and was political in that it continued a long-term project to shrink the state, cut public sector pay and introduce a "welfare cap that bites into the safety net that any of us might need". More specifically she accused the Chancellor of the Exchequer of doing "nothing for the young who continue to face the worst job market in decades and unaffordable housing". She added that it also did little for low and middle earners who, "after years of falling living standards, have no spare cash to take advantage of the help for savers, and who now face year on year cuts in benefits for working families as the welfare cap bites". Though she acknowledged that there was some genuine help for manufacturing, it was "the exception" in an otherwise highly political short-term Budget. Earlier, the TUC General Secretary had issued a press release on the latest employment figures in which she stated that though the economy was generating jobs, "too many are insecure and poorly paid" with women in particular vulnerable to being paid less than £10,000 per year.

3.2 CBI: A Budget to put Wind in the Sails of Business Investment

John Cridland, the CBI Director-General, in a press release welcomed the Budget. He thought that the Chancellor had focussed on areas that had "the potential to lock in growth". He was pleased with the "significant and much-needed energy package" that would "help keep manufacturing jobs in the UK, while underpinning vital investment in new energy". He also lauded the doubling and extension of the Annual Investment Allowance and the decision to make the seed enterprise investment scheme permanent, which would be "a shot in the arm for many medium-sized businesses". He believed that the provisions on pensions would allow people on low incomes to make more informed and flexible decisions on defined contribution schemes, while the CBI was content that the Government had chosen to consult on the implications of making a similar change to defined benefit pensions as stability for these schemes was "essential". Finally, he stated that the announced changes to ISAs would "help rebuild a savings culture". The CBI later issued a more detailed response to the Budget.

3.3 IoD: Responsible and Imaginative for Growth, Exports and Investment

Simon Walker, Director General of the Institute of Directors (IoD), in his response said that the Budget would be "widely welcomed across the business community". He applauded the strengthening of the link between savers and business investment, through ISA and pension reforms, which he thought had the "potential to bring profound change, shifting our culture from debt to savings". He particularly welcomed support for Britain's exporters such as increased capital allowances, reform to Air Passenger Duty and measures to tackle energy costs. However, though the IoD supported the increase in the income tax personal allowance, he was disappointed that "more and more workers will be dragged into the 40 per cent income tax band, as the Chancellor has failed to raise the higher rate tax threshold by any meaningful amount".

3.4 PCS Union: A Budget that does not Address Crises Facing Communities

The Public and Commercial Services Union (PCS) responded by stating that the Budget "completely ignores the crises of poverty and housing facing our communities". It sought to demonstrate the levels of poverty and inequality in the UK. It argued that an extra million people were "living in poverty since the Coalition was formed", and pointed to the Government's own figures which showed that the cost of living was still outstripping wages and to research by Oxfam that indicated that five UK families owned more wealth than the poorest 20 percent. It noted that while half a million people had used a foodbank last year, the main reason being cuts and delays to benefits, the Budget announced an "arbitrary cap on social security spending". The PCS also sought to highlight that 1.8 million families were on council house waiting lists and that the number of families housed in B&B accommodation was at a 10-year high. In addition, it maintained that unemployment remained "stubbornly high" with long-term and youth unemployment at "historically high levels" alongside increases in "often uncertain and low-paid self-employment". The press release commented that while many families were struggling, "failing" private contractors such as Atos, G4S and Capita were "continuing to profit at the taxpayers' expense", while bankers were "enjoying sky high bonuses" and energy companies were "ripping off consumers". It noted what it saw as inequity in the taxation system, with the highest earners seeing their tax rate cut to 45 percent, while pay cuts and the VAT increase had "hit the lowest earners hardest". Its own research published

the day before showed that more than £64 billion a year had been cut from the real value of UK wages, including £11 billion lost by public sector workers. The PCS General Secretary, Mark Serwotka, accused the Government of allowing its "obsession with austerity" to cause "misery for millions of people while the over-hyped economic recovery benefits only a wealthy few". He called instead for "free universal childcare so parents can afford to return to work, a living wage and an end to pay cuts, and proper investment to create sustainable jobs and build the homes to tackle the scandal of our housing crisis".

3.5 EEF: Chancellor Delivers on his Word for Manufacturers

Terry Scuoler, Chief Executive of EEF, the manufacturers' organisation, in a press release on the EEF's website, said that the Chancellor had delivered on his promise of a Budget for manufacturers. The Budget had addressed manufacturers' concerns about the need to reduce the rising cost of energy and had introduced measures to boost investment, exports and skills. He contended that with the Budget: "We now have some of the building blocks in place which will help rebalance the economy [...] and finally give business the predictability and certainty to encourage the successive rounds of investment our economy needs". Gareth Stace, Head of Climate and Environment Policy at EEF, was particularly pleased by the freezing of the Carbon Price Floor, which would "translate into greater clarity for manufacturers' energy bills through to 2020" while the Renewables Obligation compensation for energy intensive industries would allow UK companies to "compete effectively with others around the globe and keep production here in the UK". Lee Hopley, EEF Chief Economist, hailed the doubling of the Annual Investment Allowance, which she said would "offer a big boost to spending on modern plant and machinery" and "capture more of manufacturers' investment on new equipment and technology which are key to a shift in our productivity performance". She also supported measures to support a more generous R&D tax credit for small loss making companies and a reform of UKEF to boost exports. Tim Thomas, EEF Head of Employment and Skills Policy, thought that the extension of the apprenticeship grant for employers, with additional funding for apprenticeships up to postgraduate level, would: "support manufacturers to access the higher level skills needed to fulfil their ambitions to launch new products and services and tap into new markets".

3.6 National Pensioners Convention: Moving to a Reliance on the Market

The National Pensioners Convention (NPC) in its response to the Budget thought that the real intention of the Chancellor's Budget was to "place further responsibility for retirement onto individuals and the market, rather than seeing it as a role for the Government". Dot Gibson, NPC General Secretary, said that pensioners would be concerned that "benefits such as the winter fuel allowance, cold weather payments and the Christmas Bonus have all been placed into the welfare cap, which could lead to cuts in the future, at a time when fuel bills in particular are continuing to rise". She thought that a new Pensioner Bond and changes to ISAs were "rather rose tinted", as 55 percent of all pensioners receive less than £10 from their savings and 29 percent of older couples had less than £1,500 put aside. She therefore contended that "the idea that older people therefore have huge amounts of money to invest is rather optimistic". She was concerned about proposed changes related to defined contribution pensions. She argued that allowing people to take all their pension pots at 55 would not "make the pot any bigger and belies the fact that the average worker will have a pension pot of little more than £30,000 to cover all of their retirement". She was worried that pension pots would be used up earlier, causing problems later on, especially for the lowest paid workers. She

thought that though the private pension industry might profit, "money purchase defined contribution pension schemes are simply not the answer to funding a decent income in retirement [...] [as] workers end up with much less than they thought".

3.7 British Bankers Association: Help for Savers, Exporters and Businesses

The British Bankers Association (BBA) Chief Executive, Anthony Browne, said in his response that the Chancellor had delivered on helping savers, exporters and businesses looking to invest. In terms of savers, he stated that the Chancellor had not only delivered a simpler and more flexible ISA regime but had gone further by increasing the annual allowance as well as merging shares and cash ISAs. He also noted the Budget's reforms to pensions which he believed would "provide real help to those approaching retirement as will the cut in the 10p tax rate on savings". Overall he said that these changes would "provide succour for savers trying to plan for the future whilst providing a welcome boost for the long term health of our economy". On the question of exporters, he was pleased that the Government had "listened", and applauded "the aim to give the UK one of the most competitive export financing regimes in the world". He said that business investment was crucial to the economic recovery, and welcomed the extending and doubling of the size of the annual investment allowance, which would give "businesses the confidence and certainty they need to invest".

3.8 UNISON: Short on Fairness, Short of Ideas

Dave Prentis, General Secretary of UNISON, in his response to the Budget was critical. He said that the Budget was "short on fairness, short of ideas and short of a feel good factor to persuade people that the pain of continuing austerity was worth it". He pointed to the gap between the rich and poor which was dividing society, the problem of pay failing to keep pace with the rising cost of everyday essentials such as food and fuel, and fears over job stability. He noted that this had particularly hit the public sector since the Coalition came to power with "hundreds and thousands" of public service workers having lost their jobs or seen their pay frozen and its value cut between 10 and 18 percent since 2010.

3.9 Robert Peston (BBC): A Budget for Business and Older People

Writing in an article on the BBC News website, Robert Peston, the BBC's Business Editor, thought that the Budget was a "very traditional Tory Budget—perhaps the most Conservative since the creation of the Coalition Government in 2010" and was aimed primarily at business and older people. This was because the two major reforms in the Budget were "help for businesses to invest and export; and a genuinely radical package of reforms of the tax system as it affects savings". He thought that few in the business community would not welcome the decision to double the annual 100 percent tax allowance for investment to £500,000. Nor would they not be pleased at the doubling of government credit to support overseas sales to £3 billion and the reduction by a third of the interest rate charged on that credit. But he thought that the three major reforms to savings were "eye watering". Firstly, the ISA limit would be increased to £15,000 and for the first time all of it could be invested in cash savings accounts with the possibility to convert existing ISA share accounts into cash accounts. Secondly, £10 billion of new fixed rate bonds at higher interest rates would be made available for those over 65. However, the third reform was the most significant: abolishing the requirement to invest in low-yielding annuities for those saving for retirement in defined contribution schemes. He thought this would be widely welcomed by those approaching

retirement, although it exposed "the Government to the risk that some who retire will consume their savings long before they die, potentially creating an increased longer term liability for the state".

3.10 Nick Robinson (BBC): Osborne's Savings Surprise

Nick Robinson, the BBC's Political Editor, writing on the BBC website, thought that the Chancellor had surprised many by looking to help savers rather than income tax payers. He suggested that reforming the "broken annuities market" might win Labour's support, because the Labour Party had attacked the "complex, confusing and uncompetitive" way the pensions market now worked. He thought that the measure had one political target—"older voters with savings, many of whom will be 40p tax rate payers", a higher proportion of which he suspected would be "Tory voters or disgruntled ex-Tory voters". He noted that there were a number of populist measures, such as "a penny off a pint and the halving of the tax on bingo". Business was helped with "their energy bills" and "schemes, tax breaks and incentives to encourage them to invest and export". He suggested that all of the reforms would be paid for "by another tighter squeeze on departmental budgets". As such, Robinson concluded that this was "a Budget whose measures were carefully chosen and calibrated by George Osborne with the next general election in mind".

3.11 Centre for Policy Studies: At Times a Thatcherite Budget ...

The Centre for Policy Studies (CPS) in a press release welcomed the Budget and its "radical" savings and pension reform, more income tax cuts and boost to exports. This it argued had to a "surprisingly large extent" delivered "pro-growth supply side reforms as well as [eased] the burden on lower and middle income households whilst keeping to the programme of deficit reduction". It pointed to the OBR's economic outlook which had greatly improved since 2013, and was perhaps best reflected by the fact that the economy had grown three times faster in 2013 than the OBR predicted at the last Budget. It noted that the OBR had updated its growth forecasts in 2014 from 2.4 percent in the Autumn Statement to 2.7 percent in the Budget and from 2.2 percent to 2.3 percent for 2015. It also highlighted the OBR's forecasts regarding improvements to public sector net borrowing with an expected £23.5 billion less borrowing from 2013–14 to 2018–19 compared to the Autumn Statement. However, cyclically adjusted net borrowing was still higher than was "comfortable", which meant that further public spending cuts would be required. It suggested that the Chancellor should "also look to increase the scope of the welfare cap and consider whether it really does need to rise in line with inflation". It hailed as radical and Thatcherite the Budget measures on: abolishing the 10 percent savings tax rate; merging of cash and stock ISAs with an new limit of £15,000; overhauling rules for defined contribution pensions and abolishing compulsory annuities; cutting the withdrawal tax rate on pensions from 55 percent to the marginal income tax rate. The CPS also welcomed a number of other measures: the cut in aviation duty by abolishing bands C and D (which will make long haul flights cheaper and boost exports); the cancellation of the fuel duty rise; the increase in the personal allowance to £10,500; the announcement of a new garden city (although it thought greater simplification of planning laws and regulations would have been more powerful); and efforts to cut the inflated cost of childcare (although it argued that more deregulation to cut the cost base of childcare providers would have been preferable). However, there were a number of areas where the CPS was less positive and it thought the Government was "tinkering", such as: the £20 million tax credit for theatre productions; the £20 million cathedrals grant repair scheme; the £50 million extension of the cultural gifts scheme; the £200 million made available to fix potholes; the 4 percent pensioner bond, which it believed

could make it difficult for businesses to compete for capital; and the 1p off the pint of beer duty. It thought that the size of the deficit meant that these changes were not merited. It suggested that the Budget could have included a number of other initiatives, such as a "greater emphasis on tax simplification and earlier introduction of the permanent tax changes such as the 20 percent corporation tax rate and the abolishment of employer National Insurance contributions for under 21s". It would have also supported "bold cuts in income tax rates" or "more substantial increases in thresholds".

3.12 Green Party: Business as Usual—Budget is a Triumph for Cronyism

Green Party Leader, Natalie Bennett, writing in a press release, criticised the Budget. She argued that it was "not a Budget for a resilient economy but for a fantasy economy that exists only in Mr Osborne's head". It did not set out how the British economy could be transformed for a "low-carbon future that ensures everyone has access to a decent quality of life". She contended that the Budget promoted "dead-end smokestack industries", while export loans would most likely benefit the arms industry and measures for ISAs would further "expand our already dreadful levels of inequality". Green Party Finance Spokesperson, Molly Scott Cato, was dismissive of proposals for a "garden city built in a quarry and growth built on a re-inflated housing bubble". She was concerned that the Chancellor's "desperate attempt to re-inflate the housing bubble through extending the life of Help to Buy is storing up exactly the sort of catastrophic financial collapse that put us in this economic mess". In addition, it would do "nothing for those who are most in need of reasonably priced housing, since it will only support mortgages they cannot afford and encourage house prices to rise even further beyond their reach". Green Party Welfare Spokesperson, Romayne Phoenix, also questioned the Chancellor's claim that there were more jobs under the Coalition: "Where we could have decent properly paid jobs for many thousands of experienced workers and those looking for their first paid employment we have unemployment, under employment, exploitation through zero hours contracts and low pay".

3.13 Policy Exchange: A Budget for the Silver Savers

Policy Exchange in its response referred to a Budget for "silver savers". It saw some merit in measures aimed at pensions but was concerned that they did not go far enough. Though ending compulsory annuities and making it cheaper for pensioners to draw down their pots would bring much needed flexibility to the system, it did not address the problem that "people simply aren't saving enough from an early age". It stated that 11 million people were are at risk of entering pensioner poverty when they retired, with "someone earning the average wage (£27,000) needing to save over six times more than they currently do to generate the Government's recommended retirement income of £16,200". That is why it was "right for the Government to make it compulsory for people that are working to save". On the state of the economy, Policy Exchange noted that though some progress had been made on reducing the deficit, the UK would not be running a surplus until 2018–19. It therefore "came as no surprise" for the Budget to set out details on the planned welfare cap which would ensure that significant increases in spending did not go uncorrected. Furthermore, with an ageing population, pressure on public spending would further increase and "these steps are the very minimum of tools that should be employed", which might have been more effective "if the state pension—which makes up £80 billion of overall welfare spending—were to be included". Policy Exchange thought that raising the personal allowance to £10,500 would go some way to easing the squeeze on living standards, while the significant extension to the Annual Investment

Allowance would over time help increase productivity. However, Policy Exchange suggested that a major cut in employers' National Insurance contributions would "have been more effective in driving up wages". It also suggested that rather than raising the Tax-Free Childcare costs cap it would have preferred to have seen a "greater focus on driving up the quality of childcare provision, especially in more deprived areas of the country". It was "delighted" with the announced plans for the construction of the first garden city in 100 years at Ebbsfleet and support for other such schemes, and moves to dramatically increase the number of self-build homes. On measures to freeze carbon price support, it noted that though this would help coal generators, and looked likely to increase the amount needing to be spent on technology-specific subsidies for wind farms and nuclear power stations, it "undermines moves to a technology-neutral power market and damages faith that the Government will stick to its energy and climate policy commitments". It also contended that though announced exemptions for heavy industry from the costs of energy would not affect the overall cost of policy they would "affect who pays for it, putting more of the burden on taxpayers".

3.14 Adam Smith Institute: A Boring Budget

Sam Bowman, Research Director at the Adam Smith Institute, writing on the Institute's website claimed that the Budget was "boring". He claimed that the total tax and spending changes "barely scratch" the surface at around £2 billion/year in each direction, which was a "tiny 0.3 percent of the £732 billion the Government is expected to spend this year". The only "exception" was the measures relating to pensions which he thought might "prove to be very significant in the years to come". He argued that the Budget was gimmicky, pointing to measures such as inheritance tax exemptions for emergency services personnel who die in the line of duty and giving LIBOR fines to Help for Heroes. He thought that "even the much-heralded 'welfare cap' can be easily undone by any Parliament that wishes to in future, so cannot count as more than a political stunt". He did, however, acknowledge that labour market data allowed some cause for optimism. He was positive about the raising of the personal tax allowance to £10,500, but wished that the Chancellor had taken the opportunity to tackle the National Insurance threshold, which was "much lower than the personal allowance and affects low paid part-time workers who may not benefit from the personal allowance rise at all". Eamonn Butler, Director of the Adam Smith Institute, welcomed the measures regarding pensions as they would allow Britain's private pension savers to be treated like responsible adults: "Most people are perfectly capable of managing their retirement income and do not want to fall back on the state anyway".

3.15 IPPR: The UK's Economy is not Becoming more Resilient

Tony Dolphin, the IPPR's Senior Economist and Associate Director for Economic Policy, in an article posted on the IPPR website, thought that the OBR's assessment for the UK economy showed that it was still fragile. He noted that there was some good news in the OBR's assessment. It had revised its growth forecast and now expected real GDP to increase by 2.7 percent in 2014, followed by 2.3 percent in 2015. The composition of the growth was also promising with business investment forecast to increase by 8.0 percent in 2014 and by 9.2 percent in 2015, though there was "a long way to go before our investment spending levels (in relation to GDP) match those of our competitors". However, he thought that the OBR had been less optimistic about the prospect of external trade (exports less imports) supporting UK growth over the next few years, suggesting that trade would subtract 0.2 percent in total from the growth of the economy between 2013 and 2018. More worrying was the OBR's forecast in relation to household debt. The OBR thought that though the ratio of debt to household

income had fallen, this fall had come to an end, with the debt ratio set to increase from 142 percent to 166 percent up over the next five years. Dolphin was concerned because "a build up of household debt before 2008 was one of the reasons that the recession was so severe in 2008 and 2009". He also suggested that the OBR's economic forecast meant that the recovery was "only sustainable if households take on higher debt, because real wage growth is expected to be anaemic". While average earnings were expected to start increasing faster than prices later in 2014, the OBR had forecasted earning growth would average 3.4 percent from 2014 to 2018 compared to inflation of 2.0 percent. He concluded that as well as tackling the UK's large budget deficit, the Government had to tackle its structural weaknesses in terms of high household debt, a persistently low level of investment relative to our competitors and a long-standing weak export performance.

3.16 Institute for Economic Affairs: Budget Represents a Missed Opportunity

Mark Littlewood, Director General at the Institute of Economic Affairs, described the Budget as a missed opportunity. It had not tackled the "inequity of millions of earners being dragged into the 40p rate", which was "an attack on aspiration and entrepreneurship". Though he welcomed the increase in the personal allowance, he thought that it "should not have come at the expense of tax cuts in other areas". He argued that the Government should have announced above inflation increases in the thresholds for inheritance tax, stamp duty and the higher rate of income tax to "begin to compensate for years—or decades—of under-indexing". He suggested that this could have been financed by the reversal of "misguided spending commitments on childcare and also by not reducing the starting rate of tax for savers". On the Budget's measures regarding savers, he approved of the increased flexibility through the removal of restrictions on access to pension pots, but argued that rather than reducing the 10p starting rate of tax for savings income, the Chancellor "should have abolished the concept of a special tax rate altogether" to remove unnecessary complexity in the system. He contended that the creation of Pensioners' Bonds was "bad for taxpayers and bad for businesses who have to compete against governments for capital". He criticised the Chancellor for "ignoring the substantial burden of the country's implicit debt in the form of unfunded social security commitments as the population ages". He urged the Government to "urgently review not only the scale of state spending but also the scope of government", and to consider areas such as education, health and foreign aid. He was also concerned that the Government was using the Budget to rebalance the economy by picking "losers" such as raising levies on fast-growing Fixed Odds Betting Terminals and lowering them on bingo: "The Government would be best placed pursuing a genuinely deregulatory agenda that unleashes the private sector". He thought the Government should not have pledged to subsidise childcare, but instead should have embraced policies that brought costs down.

3.17 New Statesman: George Osborne Shamelessly Courts the Pensioner Vote

George Eaton, writing on the *New Statesman* blog, argued that the Budget had a lengthy section devoted to supporting savers and pensioners because at the 2010 General Election, 76 percent of the over-65s turned out to vote more than any other age group. He suggested that if the Tories "are to edge Labour in a close election next year, winning the support of this group will be crucial". Eaton claimed further proof that the Chancellor was seeking to appeal to this group of voters could be found by his decision to exclude the state pension from the new cap on welfare spending. He noted that many would question this priority because it could be argued

that pensioners had suffered the least during the long squeeze, with their benefits shielded from austerity, while the young have suffered the most. He conjectured that this might indicate "rational, if crude, politics". However, he accepted that it might also conversely be a "prelude to a Conservative pledge to means-test universal pensioner benefits, such as Winter Fuel Payments, free bus passes and free TV licences, in 2015" as while the "state pension has been excluded from the welfare cap, these payments have not". As such, he wondered whether Osborne's "Budget for savers" may well be "aimed at providing the Tories with the protective cover they need to execute this U-turn".

3.18 The Spectator: Five Scary Graphs

Fraser Nelson, writing on the Spectator's Coffee House blog, noted that the Budget indicated that a recovery was under way and that the good parts of the Budget were being pushed to the fore. For instance, data on employment was positive. However, he sought to highlight a number of graphs and data hidden away in the small print of the Budget documents which gave cause for concern. Firstly, though the deficit had improved it was way off course from what the Chancellor promised initially in his first Budget. Secondly, the Chancellor had not addressed the problem of public sector net debt as a percentage of GDP. Thirdly, national debt had also not been fully addressed with the Chancellor "still borrowing more in five years than Labour did in 13—in nominal and real terms". Fourthly, he also questioned the accuracy of the OBR's forecasts, which had been upgraded and downgraded since June 2010. Fifthly, he maintained that the recovery was still "the worst recovery in history", with 2.7 percent growth for 2014 coming after "pretty bad growth": "Put into historical perspective, Britain is still midway through the worst recovery in our history". Sixthly, in comparative terms he pointed to data which showed that since 2008, only Italy out of the G7 countries had experienced a worse recovery. Finally, data also showed that it might take fifteen years for average wages to recover to where they were before the economic crisis.

3.19 The Guardian: Not Consistency of Purpose, but Carefree Expediency

The Guardian Editorial argued that the "chief impression from the raft of micro-measures is not consistency of purpose, but carefree expediency". Though not all the ideas were bad, it contended that inconsistency was a theme. Thus, a Chancellor who had cut investment allowances was now increasing them to boost growth and while he had introduced a rising carbon price floor, to provide green energy investors with certainty, he had now frozen it. Similarly, where green taxes were supposed to be doing more work, levies on petrol, flights and heavy industry were now all cut at once. The Editorial also suggested that the Budget had laid traps for Labour in terms of "gratuitous parliamentary votes on welfare and borrowing, confected to force the opposition into a corner". However, there was one exception where the Chancellor had "stuck steadfastly to his course—shrinking the state". While at the election he had "promised a ludicrously lop-sided retrenchment, with spending cuts shouldering 80 percent and taxes just 20 percent" he had "actually over-delivered: an astonishing 94 percent of the extra consolidation he has announced is coming through cuts". On the question of the pension reform, the Editorial was mixed. On the one hand an instant dive in shares for annuity houses could indicate leaching middle men being squeezed. However, on the other hand, it "could be a sign of the bottom being pulled out of the market in insurance against living longer" with the worry that dismal rates could still get worse, with those living the longest paying the price. The Editorial concluded that reform of pensions "should be developed carefully, not whipped out of the hat as fait accompli on Budget day".

3.20 Larry Elliott: A Budget to Woo better off Voters

Larry Elliott, in his analysis of the Budget on the Guardian Economics blog, thought that it was "far more content-rich than most had anticipated" and was comprised of broad themes. Growth was on course to be higher than forecast for both 2014 and 2015, with the level of national output moving above its 2008 pre-recession level later in 2014. However, this had to be seen against the backdrop of faster growth in the short term, meaning "slightly weaker growth later". Elliott said that this was why Osborne had announced a whole host of changes designed to improve the long-term performance of the economy and bring about its rebalancing, with measures such as help for exporters, doubled investment allowances and cuts to the cost of industry's energy bills. Finally, there was the reform of savings, including more generous ISAs, new pensioner bonds and "the death knell for the annuity signalled by the right for pensioners to take control of their own pension pots". He suggested that the impact of the changes would "be felt over many years, but will probably lead to some immediate increase in spending", while they were also "designed to woo a core Conservative constituency: better-off pensioners thinking of voting UKIP".

3.21 Peter Oborne: A Triumph for Mr Osborne and the Coalition

Peter Oborne, writing in *The Telegraph*, called the Budget "serious, sober and sensible". He suggested that unless something went "very wrong" the Budget delivered a firm economic case for the Conservatives to fight the next general election. The OBR's analysis indicated that growth would rise by 2.7 percent in 2015, living standards had started to improve and the deficit would start to fall "seriously". This would allow the Tories to "be able to claim that they are rescuing the nation from Gordon Brown's recession—and they will be able to say truthfully that their policies were opposed by Labour". Oborne also thought that the Budget suggested that things were improving for the Coalition, as it was "a reminder of the fact that the Coalition has worked very well in many respects". He argued that all of the Chancellor's economic policies had been pushed through with the loyal support of the Liberal Democrats. In some cases the Liberal Democrats had been the architects of key reforms, such as the rise in the personal allowance to £10,500. He also thought that many of the measures relating to saving were due in part to Steve Webb, the Liberal Democrat Pensions Minister. This indicated that the Liberal Democrats and the Tories are "once again working creatively together", and there was now "every chance that the Coalition will hold right up to the moment the general election is called".

3.22 Mary Riddell and Benedict Brogan: A Labour Trap and a Pensions Revolution

Mary Riddell, also writing in *The Telegraph*, mused that the Budget's welfare cap provision had cleverly set a trap for the Labour Party. She suggested that Labour had calculated that the Chancellor would either fix the cap at a level they could live with or at a level that would face down the Liberal Democrats and turn the thumbscrew so "brutally that the country would lose sympathy with a stony-hearted measure". However, she thought by deliberately choosing a midpoint, the Chancellor had created a problem for Labour, who would have to vote on the measure the week after and decide where they stood in terms of the reducing the deficit or maintaining benefits. Benedict Brogan's verdict on the paper's blog was that Mr Osborne by appealing to savers and pensioners would not only satisfy Conservatives, but also "all those who think about the future and look for ways of preparing for it" and "the aspirational

middle-income voters with an instinct to provide for themselves". This represented a "substantial package of incentives for those who look to themselves rather than the state to secure their future". Brogan hoped that the pension measures would represent a revolution in insurance and life products and one that might be viewed as one of the most significant for pensions since the war".

3.23 Ian King: Osborne Tries to Keep Core Voters Sweet

Ian King, writing in *The Times*, said that a central theme of the Budget was "the largesse targeted at older and better-off voters who, apart from being able to shelter more of their savings from tax in an ISA or in Premium Bonds, will also be able to access a better rate of return in Mr Osborne's new pensioner bonds and who, most crucially, will also be liberated from the stultifying choice of having to buy an annuity at retirement". He suspected that the Chancellor's political motivation was two-fold. Firstly, it would appeal to those people who tend to vote more and who historically tended to vote Conservative, and who also made up a large part of the constituency to which UKIP most appealed. Secondly, it had an ideological undercurrent as all the measures, especially the removal of the compulsion to buy an annuity, amounted to "a widening of choice of which Mr Osborne's political heroine, Margaret Thatcher, would have approved". He acknowledged the Chancellor's measures to address tax avoidance, but he doubted whether it would "live up to the hype" by noting that the 2011 Budget had promised to recoup £3 billion sheltered in Swiss banks but had only yielded £440 million. He thought that the doubling of the investment allowance and the £7 billion package for energy intensive industries were good, solid, pro-business moves. However, he thought that the backdrop to the Budget was still difficult: "The deficit is going to continue to come down painfully slowly and more austerity measures, as acknowledged in the plans to cap welfare spending, are inevitable, whoever wins the election".

3.24 James Moore: A Lucky Chancellor and his Devious Moves

James Moore, writing in *The Independent*, thought that the Budget had produced data that looked good and acknowledged that the economy appeared to be growing quicker than anyone had expected. He saw the Chancellor as being lucky because he had benefitted from an improvement in the world's economic outlook. However, the question was whether enough people felt that things were improving for it to deliver political dividends. Moore thought the Chancellor was ironically caught between fear of diverging from his credibility staked on reducing the deficit and offering enough to those he needed votes from. It was for this reason that he "threw a banana or two" to his core constituency of Tory voters that were older, richer and often pensioners, and who might be seduced by UKIP. The decision to raise ISA allowances to over £15,000 and to allow flexibility between cash and shares would not apply to many people, but those that it would "are the Chancellor's people". The decision to abandon the requirement to buy annuities would in Moore's view also benefit largely "Osborne's people". It was this appeal to those likely Tory supporters that made the Chancellor's measures "devious".

3.25 Financial Times: A Deft Blend of Prudence and Politics

The *Financial Times* Editorial stated that the Chancellor had achieved two main aims. Firstly, it had spelt "out to the country yet again that while he has a plan for restoring the public finances, there remains plenty of work to do". Secondly, it had prepared the ground for next year's general election by "throwing a tempting bone in the direction of the Conservative faithful and

those tempted to leave the fold in the direction of the UKIP". The FT thought that while there might be debates about the merits of the Chancellor's austerity strategy, the "economic picture was improving" with growth "picking up after a long period of stagnation". The UK economy was now outperforming its G7 rivals. However, the need for a continued firm hand on public finances had restricted the Chancellor's room for fiscal manoeuvre, limiting him to measures that were high in political resonance but low in fiscal cost. Thus, he had delivered policies aimed at "makers, doers and savers" which specifically appealed to the Tories' core constituencies, notably pensioners and small-business leaders. The reform of defined contribution pension schemes was "bold", and the measures addressed the unpopularity of annuities. However, the FT warned that there was a risk that "some pensioners will run through their lump sum irresponsibly" and that at a time of growing life expectancy, a "sizeable number may end up falling back on the state". It was therefore imperative that the Government followed through on its commitment to give retirees access to adequate, cost-free and impartial advice. On the question of increasing the tax-free ISA from £11,500 to £15,000 per annum, the FT concluded that it would "benefit only the better off". In terms of measures aimed at business, the FT considered that they were well targeted as they addressed the UK's poor productivity and lack of investment. Doubling the tax break on investment to £500,000 at a time of rising confidence would encourage firms to bring forward investment plans or increase those already in place. The decision to cut energy costs for large manufacturers and energy-intensive businesses would help to make UK firms more competitive and avoid them relocating elsewhere. Politically, the Budget had posed the question for voters as to whether they were prepared to abandon the Chancellor's economic strategy whilst posing difficult questions and challenges for Ed Miliband, the Opposition Leader, and Ed Balls, his Shadow Chancellor, as they would "need to explain why the public should trust them to manage the economy any better".

3.26 Martin Wolf: Handouts to Rich and the Old Paper over a Bleak Future

Martin Wolf, writing in the *Financial Times*, said that the Chancellor had "given a highly political Budget focused on benefiting the prosperous and the elderly". However, this was in the context of the OBR's view of the long-term economic prospects, which remained "grim", and the Treasury's belief that the ratio of public debt to gross domestic product had to be brought down to pre-crisis levels. He thought it was "the hair shirt for the indefinite future". As such, Wolf saw some Budget measures as "small beer": "economically irrelevant but politically appealing". These included the 1p off the price of a pint (£550 million over the next five fiscal years) and the decision to freeze alcohol duty on spirits and abolish the wine escalator (£975 million). Overall he depicted the Budget as neutral: "a modest net stimulus in the next two fiscal years (£1.11 billion) offset by a net contraction in the following three years (£1.26 billion). The total tax "giveaway" is £5.6 billion over five years, less than 0.1 percent of cumulative GDP". He believed that the reduction in air passenger duty would be popular. He was concerned that changes to savings and pensions would be important for a fairly limited number of relatively prosperous middle-aged and elderly people, as few would be able to save £15,000 in an ISA in a year. Though the decision to allow people not to purchase an annuity would be popular, he warned that might also be risky: "Wait for the mis-selling scandals". Wolf argued that the economic backdrop to the Budget meant that fiscal austerity would be required for the rest of the next Parliament. It was within that context that the Chancellor had taken two choices. The first was to bring the ratio of public spending to GDP to 38 percent of GDP and the other was that the Government should run a current budget surplus to bring the public debt ratio back to the pre-crisis ratio of 30 percent of GDP by the mid-2030s. He credited the Chancellor for raising these important issues for debate.