HOUSE OF LORDS

Library Note

Debate on the Budget Statement
21 July 2015

On 8 July 2015, the Chancellor of the Exchequer, George Osborne, presented his Budget statement to the House of Commons. This was the first Budget from a Conservative majority government since Ken Clarke delivered his last in 1996. Introducing the Budget, the Chancellor stated:

> From a one nation Government, this is a one nation Budget that takes the necessary steps and follows a sensible path for the benefit of the whole of the United Kingdom.

The Chancellor announced a range of measures which included proposals on: improving Britain's productivity; maintaining the rate of budget deficit reduction; changes to the fiscal rules; changes to welfare; and the introduction of a national living wage.

The Office for Budget Responsibility (OBR) also published its latest economic forecasts to accompany the Budget statement. In these forecasts, the OBR announced that the estimate for GDP growth in 2014 was at 3.0 percent, revised up from the 2.6 percent estimated in March 2015. However, the OBR revised down its growth estimate for 2015 from the 2.5 percent forecast in March, to 2.4 percent, while the GDP growth forecast for 2016 remained at 2.3 percent, unchanged since March.

Responding to the proposals set out in the Chancellor's Budget statement, members of the House of Commons and commentators outside of Parliament considered the implications of the measures, including the impact they would have on employment and productivity in the United Kingdom, on families' earnings and income, and on businesses.

This Library Note provides a brief overview of some of the key Budget measures. The Note then outlines the immediate reaction to the statement as expressed by members of the House of Commons and by a selection of organisations and commentators. The Note does not provide a detailed examination of all the policies announced in the Budget statement. For a detailed analysis of the key Budget policy proposals, please see the House of Commons Library Briefing Paper, *Summer Budget 2015: A Summary*.

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1. The Budget

1.1 Projections for Growth and Public Finances

In conjunction with the Chancellor's Budget statement, the Office for Budget Responsibility (OBR) published its latest economic forecasts. The OBR announced that the Office for National Statistics (ONS) had revised its estimate of GDP growth in 2014 to 3.0 percent, up from the 2.6 percent estimated in March 2015.[1] However, the OBR revised down its growth estimate for 2015 from the 2.5 percent forecast in March, to 2.4 percent.[2] The GDP growth forecast for 2016 remained at 2.3 percent, unchanged since March.

Commenting on the latest forecasts from the OBR, Mr Osborne highlighted that the figures indicated that for "the second year in a row, Britain is expected to have the strongest economic growth of any major advanced economy in the world".[3]

The Chancellor attributed the growth to stronger private consumption and stronger investment.[4] Quoting the OBR's forecast figures on employment, Mr Osborne argued that higher investment had in turn led to more jobs. He stated that:

> Over 2 million more people have the security of work as a result of this Government's long-term economic plan. The OBR forecasts that under the current economic conditions, almost 1 million more jobs will be created over the next five years. Our ambition is to go further, and create 2 million more jobs on the road to full employment. To help achieve that progressive goal, we set out today how we will make work pay.[5]

Turning to the OBR's forecasts for government net debt and the budget deficit, he confirmed that the deficit was forecast to fall to 3.7 percent of national income in 2015.[6] He stated that the OBR predicted that the deficit would fall again to 2.2 percent in 2016/17, down to 1.2 percent the following year, and then 0.3 percent in 2018/19. The OBR estimated that in 2019/20, there would be a budget surplus of 0.4 percent.[7]

Commenting on these figures, the Chancellor argued that "having come this far, there is no turning back",[8] and explained how Government's commitment to a new fiscal framework would be implemented:[9]

> Today, I publish the new fiscal charter that commits our country to that path of budget responsibility. While we move from deficit to surplus, this charter commits us to

[1] Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088, p 45.
[2] ibid, p 46.
[3] HC *Hansard*, 8 July 2015, col 322.
[4] ibid.
[5] ibid.
[6] ibid.
[7] Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088, p 167.
[8] HC *Hansard*, 8 July 2015, col 322.
[9] In the Chancellor's Mansion House speech on 10 July 2015, he provided further details on the Conservative Party's 2015 election manifesto commitment to implement a new fiscal policy. It stated that the policy would be monitored by the OBR. Mr Osborne announced in his Mansion House speech that a new fiscal framework would be introduced and voted on in the House of Commons. HM Treasury, 'Mansion House 2015: Speech by the Chancellor of the Exchequer', 10 July 2015.

> keeping debt falling as a share of GDP each and every year and to achieving that budget surplus by 2019/20. Thereafter, governments will be required to maintain that surplus in normal times—in other words, when there is not a recession or a marked slowdown.
>
> Only when the OBR judges that we have real GDP growth of less than 1 percent a year, as measured on a rolling four-quarter basis, will that surplus no longer be required […] We will put the new fiscal charter to a vote in this House this autumn, and I invite broad cross-party support for it.[10]

The Chancellor confirmed that the deficit would be cut at "the same pace as we did in the last Parliament",[11] and that this would consist of £37 billion of further consolidation by 2020.[12] He stated that the Government had found annual savings of £12 billion from the welfare budget and £5 billion from addressing tax evasion, avoidance and imbalances in the tax system. He said that the remainder would largely come from government departments through savings and cuts, which would be set out at the Spending Review in the autumn of 2015.

1.2 Key Measures

The Chancellor presented a number of measures which set out how he planned to cut the budget deficit, as well as improving the country's productivity.

Public Spending

Mr Osborne first addressed the Government's priorities on public finances and spending. He stated that to "protect more jobs", while ensuring that "we have public services we can afford", he would continue with the public sector pay award of 1 percent for the next four years.[13] He confirmed that the Government's priority was national health, and that the NHS would be allocated, in addition to the £2 billion it had already received, a further £8 billion by 2020.

Business and Taxation

Turning to his proposals to reform the tax system, the Chancellor stated that HMRC's budget would be increased by £750 million to tackle tax avoidance and evasion. He asserted that this would raise £7.2 billion.[14] He announced that the permanent non-domicile tax status would be abolished from 2017, and that anyone resident in the UK for more than 15 of the past 20 years would have to pay "full British taxes on all worldwide income and gains". He stated that this change would raise £1.5 billion.

With regards to corporate tax rules, Mr Osborne announced that the bank levy would be reduced annually from the current level of 0.21 percent until reaching 0.1 percent in 2021. However, he stated that "to maintain a fair contribution from the banks", a new 8 percent surcharge would be introduced on bank profits from 1 January 2016.[15] Mr Osborne also confirmed that corporation tax would be reduced to 19 percent in 2017 and 18 percent in

[10] HC *Hansard*, 8 July 2015, cols 323–4. Details of the new fiscal framework were published on 8 July 2015: HM Treasury, *Charter for Budget Responsibility: Summer Budget 2015 Update*, July 2015.
[11] HC *Hansard*, 8 July 2015, col 322.
[12] ibid, col 324.
[13] ibid.
[14] ibid, col 325.
[15] ibid, col 326.

2020.[16] He argued that this would send "out loud and clear the message around the world that Britain is open for business". He asserted that lower taxes would allow businesses to "grow with confidence, invest with confidence and create jobs with confidence".

Productivity

The Chancellor argued that addressing the "great economic challenge" of productivity would "ensure that Britain becomes […] the most prosperous major economy in the world by the 2030s".[17] He suggested that raising productivity meant "giving people the skills they need to secure a better job", and confirmed the Government's commitment to create 3 million more apprenticeships.[18] Mr Osborne asserted that "too many large companies leave the training to others", and therefore announced that the Government were introducing an apprenticeship levy on all large firms.[19]

In addition, he announced that from 2016/17, student maintenance grants would be replaced with loans.[20] He said that the measure was necessary to ensure universities did not become "underfunded". He explained that the loans would only have to be paid back once the individual earnt over £21,000, and that the maintenance loan would be increased to £8,200. Furthermore, he stated that to ensure the university system was "sustainable", the Government would consult on freezing the loan repayment threshold for five years.

Mr Osborne also identified the concentration of Britain's "economic strength" in London as a cause of the country's "weak productivity".[21] He suggested that the solution was to "build up other parts of the United Kingdom as a balance to London's strength" without "pulling London down". He confirmed the delivery of a number of existing policies, including "major devolution of tax and welfare powers" in Scotland, establishing a funding floor and further devolution in Wales, and in Northern Ireland delivering the Stormont House agreement. However, he argued that devolution within England had only just began and set out how the Government would "go further in building the northern powerhouse". He stated that:

> I have reached agreement with the leaders of the 10 councils of Greater Manchester to devolve further powers to that city. These include putting fire services under the control of the new Mayor, establishing a land commission in the city and further collaboration on children's services and employment programmes […] I can also tell the House that we are now working towards deals with the Sheffield and Liverpool city regions and with Leeds, West Yorkshire and partner authorities on far-reaching devolution of power in return for the creation of directly elected Mayors. We have created Transport for the North, and I am now putting it on a statutory footing. I can announce £30 million of funding to this new body as it connects northern England together, with seamless Oyster-style ticketing across the region.[22]

[16] ibid, col 332.
[17] ibid, col 327.
[18] ibid, col 328.
[19] ibid.
[20] ibid.
[21] ibid, col 329.
[22] ibid.

He also announced that the Government were considering devolving more powers and responsibility to the Midlands, and that a £7.2 billion investment in transport in the south-west of England had been established.

Other measures which were proposed to improve productivity included reforms to the housing market. He identified three "important changes" which he asserted would "address unfairness" in the taxation of property.[23] Firstly, he announced that the relief on finance costs which landlords of residential property receive will be restricted to the basic rate of income tax; the restriction would be phased in over four years, starting from April 2017. Secondly, the rent-a-room relief scheme would be raised to £7,500 in 2016. Thirdly, a transferable main residence allowance of £175,000 for inheritance tax would be phased in by 2020/21; the effective inheritance tax threshold for married couples and civil partners would be increased to £1 million.

Welfare and Pensions

Arguing that "to build a more productive economy" the country had to "live within its means", the Chancellor set out his proposals for welfare reform and savings.[24] Firstly, he confirmed that from September 2017, all working parents of three and four year-olds would receive free childcare of up to 30 hours a week.[25]

Mr Osborne then announced a number of welfare budget savings which included: a freeze on working-age benefits, tax credits and local housing allowance for four years from 2016/17; the income threshold for tax credits would be reduced from £6,420 to £3,850 from April 2016; the child element of tax credits and universal credit would be limited to two children, with any subsequent children born after April 2017 not eligible for further support; and from April 2017, the family element in tax credits and universal credit would be removed for new claims.[26] In addition, he confirmed that from April 2017, new claimants of the employment support allowance who are deemed able to prepare for work would receive the same rate of benefit as those claiming jobseeker's allowances, alongside additional support to help them take steps back to work.[27] Furthermore, he announced that the benefit cap could be reduced from £26,000 to £23,000 in London, and £20,000 elsewhere.[28]

In relation to housing, Mr Osborne announced that rents in social housing would be reduced by 1 percent a year for four years from 2016, and local authority and housing association tenants in England who earn more than £30,000, or £40,000 in London, would have to pay at least the market rent to stay in their social rented accommodation.[29] In addition, the Chancellor stated that the automatic entitlement to housing benefits for 18 to 21 year-olds would be abolished.[30]

[23] ibid, col 330.
[24] ibid, col 332.
[25] ibid, col 333.
[26] ibid, cols 334–5.
[27] ibid, col 333.
[28] ibid, col 335.
[29] ibid.
[30] ibid, col 333.

He also confirmed the BBC had agreed to take on responsibility for funding free TV licences for the over-75s and that the Government would honour the commitment to uprate the state pension by the triple lock.[31]

Further measures on pension reform included restrictions on the pension tax relief for those with gross incomes over £150,000, and the announcement that the Government were publishing a green paper on proposals for a new pension saving system.[32]

The Chancellor stated that these measures would move "Britain from a high welfare, high tax economy to a lower welfare, lower tax society", and that the "best way to support working people is to let them keep more of the money they earn".[33]

Personal Taxation and Pay

Mr Osborne confirmed that the Government would "introduce a tax lock to prohibit any increase in the main rates of income tax, national insurance and VAT for the next five years".[34] The Chancellor announced that he was raising the tax-free personal allowance from £10,600 in 2015/16 to £11,000 in 2016/17, stating that the Government "will now legislate, so that after that the personal allowance will always rise in line with the minimum wage". He also said that the higher rate threshold would be increased from £42,385 in 2015/16 to £43,000 in 2016/17.

The final measure announced by the Chancellor was the introduction of a compulsory national living wage for all workers aged over 25. He explained that it would start at £7.20 an hour from April 2016, and would reach £9.00 by 2020.[35] He stated that the Low Pay Commission would advise on future rises.

Other Measures

A number of other proposals were put forward in the Budget, including: a commitment to meet the NATO pledge to spend 2 percent of national income on defence;[36] removal of the Climate Change Levy exemption for renewable electricity;[37] reform to vehicle excise duties;[38] and a freeze on fuel duty.[39]

A further, and more comprehensive, examination of the Budget policy measures can be found in the House of Commons Library Briefing Paper, *Summer Budget 2015: A Summary*.[40]

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[31] ibid.
[32] ibid, cols 331–2.
[33] ibid, col 336.
[34] ibid.
[35] ibid, col 337.
[36] ibid.
[37] ibid, col 331.
[38] ibid, col 327.
[39] ibid, col 328.
[40] House of Commons Library, *Summer Budget 2015: A Summary*, 8 July 2015, CBP-7251.

2. Reaction

2.1 In Parliament

Opposition

The acting Leader of the Opposition, Harriet Harman, began her speech by setting out how the Opposition would respond to the Government's proposals in the Budget statement. She stated that:

> When in opposition, the temptation is to oppose everything the government do—believe me, I feel that temptation—but we best serve this country by being a grown-up and constructive Opposition. We will fiercely oppose policies that hit working people and expose policies that are unworkable, but where the Government come forward with sensible ideas, we will be prepared to look at them.[41]

However, she suggested that the Government were "playing politics with this Budget".[42]

Ms Harman criticised the Chancellor's record on productivity, arguing that it was "poor", and highlighting that "the UK produces on average 30 percent less per hour than workers in Germany, France and the US."[43] Focusing on the Government's current proposals to increase productivity and improve Britain's infrastructure she stated that the Chancellor had:

> […] pulled the plug on the electrification of the railways and pulled the rug from under investment in renewable energy, and he has flunked it on airports.[44]

Furthermore, she argued that with the cancellation of railway electrification, "the great northern powerhouse [was] starting to look like the great northern power cut".

She asserted that "a key part of modernising infrastructure" was house building, and argued that "any credible housing policy" should "ease the housing crisis" and enable more people to own their own homes.[45] She expressed support for the measures that would help people pass on their homes to their children. Nevertheless, she argued that "more important than inheritance tax relief for homes worth millions is helping millions more people own their own homes".

Addressing the proposals on welfare, Ms Harman stated that Labour would "back measures to get people into work to achieve full employment". However, she insisted that if the Chancellor failed to "protect the most vulnerable and disabled from his welfare cuts", the Opposition "would oppose him every step of the way".[46] In addition, she questioned whether the announcement on the national living wage would be enough for "a family to live on because of

[41] HC *Hansard*, 8 July 2015, col 339.
[42] ibid, col 340.
[43] ibid.
[44] ibid.
[45] ibid, col 341.
[46] ibid, col 342.

the cuts in tax credits".[47] Ms Harman suggested that the Chancellor had "chosen to put the heaviest burden" of the deficit reduction on the low paid.[48]

Ms Harman also questioned how effective Mr Osborne's new fiscal rule would be, and asserted that it had "more to do with politics than economics".[49] She argued that:

> […] the question is whether it can be delivered, and he has signally failed to keep his promises on that in the past.[50]

Concluding her speech, Ms Harman challenged the Chancellor's "claims that this is a Budget for working people". She stated that:

> It does not put working people first; it ducks the big decisions on infrastructure and fails to give businesses the productivity boost they need […] He talks one nation, but many of the measures announced today will make this country more divided.[51]

Scottish National Party

Stewart Hosie, Deputy Westminster Leader of the Scottish National Party, opened his remarks by addressing the tone of the Chancellor's Budget. Mr Hosie said that Mr Osborne was "completely wrong" to "suggest that only right-wing politicians unders[stood] the value of leaving things for one's children", and argued that he "got the tone wrong when he spoke about benefits paying for people's lifestyles.[52] Mr Hosie stated that:

> If someone is aspirational and is striving, and is struggling on unemployment benefit of one form or another trying hard to get a job and to get by, that is not a lifestyle choice. Their lifestyle choice is to work.[53]

He further asserted that:

> The cumulative impact on the welfare budget over the five years is approaching £50 billion. In essence, that is £50 billion from the poorest and most vulnerable in the country, and it simply adds to the burden on those already hit by changes to incapacity benefit, reductions to tax credits, the freeze on child benefit, the removal of disability living allowance and the overall benefit cap.[54]

Turning to the proposal for a national living wage, Mr Hosie welcomed the announcement. However, he highlighted that the level of the living wage proposed in the Budget was lower than that currently paid in Scotland and in London. He asked for assurances from the Chancellor that the "balance between the living wage introduced today and the welfare changes will ensure that nobody in work is worse off".[55] Mr Hosie also agreed with the Chancellor's

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47 ibid, col 341.
48 ibid, col 342.
49 ibid.
50 ibid.
51 ibid.
52 ibid, col 348.
53 ibid.
54 ibid, col 349.
55 ibid, col 348.

assessment that productivity was "the major challenge". Nevertheless, he questioned whether the measures set out in the Budget would "fix the problem".[56]

Commenting on the impact the Budget and the cuts proposed would have on Scotland, Mr Hosie stated that he expected:

> […] before we see the detailed numbers from the Chief Secretary, that the cuts to Scotland will be of the same quantum as we have seen over the past Parliament—yet more trouble lies ahead because of the indifference of this Chancellor.[57]

He also raised questions about whether the replacement of student maintenance grants with loans in England would have a "knock-on consequence for Scottish funding", and insisted that in the sell-off of the Royal Bank of Scotland's stock, the "taxpayer must get their money back at the end".[58] He welcomed the freeze of fuel duty levels, but he suggested that the Budget would have been an opportunity to establish a fuel duty regulator to "provide some certainty in the future".[59]

Closing his speech, Mr Hosie suggested that:

> What we really heard today is a denial of the damage done in the last Parliament and a determination to repeat those mistakes. […] This was not the Budget the country needed and it was not the Budget that those who have suffered most over the past five years should have had to endure.[60]

Liberal Democrat Party

Tom Brake (Liberal Democrat MP for Carshalton and Wallington), focused on how the measures announced in the Budget would affect young people. He argued that investing in young people was "fundamental".[61] He said that:

> The message from the Chancellor is clear: those who are looking to get ahead and make a start in life are on their own. The Budget seeks at every turn to make it harder for the next generation to succeed, to get into work, to get a good education and to get back on their feet when things go wrong.[62]

He stated that the Liberal Democrats would support the increase in free childcare to 30 hours a week. However, he argued that the decision to reduce the starting point for working tax credit and universal credit withdrawal would "all but wipe out the benefits" for those on the lowest incomes with children.[63] Mr Brake also criticised the decision to stop automatic entitlement for 18 to 21 year-olds to claim housing benefit. Welcoming the decision to introduce a national living wage, Mr Brake argued that it was "right that people should receive

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[56] ibid, col 349.
[57] ibid, col 350.
[58] ibid, col 351.
[59] ibid, col 350.
[60] ibid, col 351.
[61] ibid, col 386.
[62] ibid.
[63] ibid.

through their pay packet the money to support themselves and their families".[64] Nevertheless, he questioned why it would start at the age of 25 and not before.

Mr Brake also criticised a number of other proposals, including the decision to change the employment and support allowance. He asserted that the majority of claimants in the work-related activity group had mental health conditions.[65] He argued, therefore, that the changes to the allowance would mean an "annual cut for £1,500 for sick and disabled people". Furthermore, he questioned the decision to continue with the public sector pay award of 1 percent for the next four years, when in the "next couple of years the budget deficit will have been addressed and the debt will start to fall". He also suggested that by "stopping the coalition proposals increasing the proportion of revenue from environmental taxation" the Chancellor had "abandoned the coalition goal of being the greenest Government ever".

However, Mr Brake also welcomed the announcement of a number of the Budget measures. He stated:

> Clearly, we agree with some areas, such as the £8 billion funding commitment for the NHS. […] We are fully behind the proposal to increase the tax allowance—it was of course Liberal Democrat policy, but before the last general election the Prime Minister said it was unachievable—and I hope that it will indeed hit £12,500 by the end of this Parliament. We also fully support getting another £5 billion through tackling tax avoidance. Finally, 2 percent for defence was delivered under the previous Government, and I welcome the fact that it will be delivered by this Government as well.[66]

Mr Brake nevertheless concluded that the measures announced in the Budget "abandon[ed] young people who want to get into work and start a family, but who fall on bad times".[67]

Democratic Unionist Party

Sammy Wilson (Democratic Unionist Party MP for East Antrim) welcomed a number of the "aspirations" in the Budget, including the Government's commitment to "growth and balance" across the UK and the proposals to increase productivity.[68] In addition, he expressed support for the proposal to rebalance the British economy through investment across the regions and further devolution. However, he expressed concerns on the approach that was proposed for achieving this in Northern Ireland, notably the Government's commitment to deliver the Stormont House agreement. He stated that:

> The Stormont House agreement is now nearly nine months old. It has not been delivered on […] but if that is what the Chancellor is relying on, then there is nothing new in this Budget.[69]

Mr Wilson also raised concerns on the welfare reform proposals. He stated that he was not opposed to all of them, such as the reduction in the cap. However, he said that there were a

[64] ibid.
[65] ibid, col 387.
[66] ibid.
[67] ibid, col 388.
[68] ibid, col 373.
[69] ibid, col 374.

number that he “fundamentally” disagreed with.[70] For instance, he suggested that MPs representing the north of England, Scotland and Wales should be “concerned about the proposal to operate a different cap in areas outside London” because he “believ[ed] that it is the first step towards a regionalisation of benefits”. He argued that this would be detrimental to those who represented poorer regions of the United Kingdom.

Green Party

Caroline Lucas (Green MP for Brighton, Pavilion) argued that the Chancellor’s Budget would “go down as a pivotal moment in the dismantling of the welfare state”.[71] She highlighted that “the Government’s own advisers [said] that slashing the benefits cap [would] throw 40,000 more children into poverty”. She went on to question whether it was a “price worth paying, when even the IMF has told the Government that low borrowing costs make austerity unnecessary”.

Chair of the House of Commons Treasury Committee

Commenting on the UK’s economic outlook for growth, Andrew Tyrie, Chair of the House of Commons Treasury Committee (Conservative MP for Chichester), asserted that the “backdrop for this Budget is dramatically better” than it was five years ago.[72] He stated that the Chancellor “deserved a great deal of credit for having brought about that transformation”.

Responding to Ms Harman’s comments on productivity, he argued that:

> What really lies behind the recovery is a massive reallocation of capital as well as labour, across regions, across the labour market and across sectors of the economy, so we might well expect productivity not to move in line with that in previous recessions.[73]

Mr Tyrie further stated that the growth before the recession, which was “fuelled by over-leveraged banks lending to over-leveraged households”, was “unstainable”.[74] He argued that to compare productivity levels with what might have been had growth continued at that rate was “highly misleading”. He also asserted that lower productivity reflected “much more flexibility in the labour market than many people feared”.

In conclusion he stated that:

> The Chancellor has the opportunity to do some remarkable things in this parliamentary term if he has some good fortune: to balance the books; to reform and simplify the tax system; to complete fundamental reform of banking and the financial system, which he already has under way; to reduce the size of the state at least to the average of the first three years of Gordon Brown’s tenure as Chancellor; and above all to secure Britain’s long-term competitiveness. If he seizes that opportunity, it will be of enormous value to the country and his will come to be seen as one of the more remarkable tenures of any Chancellor of the Exchequer.[75]

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[70] ibid, col 375.
[71] ibid, col 343.
[72] ibid, col 343.
[73] ibid, col 345.
[74] ibid.
[75] ibid, cols 347–8.

2.2 Press

Writing in the *Daily Telegraph*, Roger Bootle examined the Chancellor's proposal for a new fiscal mandate. He stated that making the government "more responsible involves forcing them to face up to the consequences of their actions, and to be transparent".[76] He argued that the proposed requirement to run a surplus in normal times "takes fiscal responsibility to another level". He also predicted that the decision to spread the "pace of spending cuts over the Parliament rather than continuing with the rollercoaster path" would reduce the "chance that fiscal policy will cause the economy to slip back in the next couple of years". However, Mr Bootle stated that the "new fiscal regime's greatest weakness" was the consequent effect on investment spending. He suggested that including borrowing for investment within the surplus rule made it likely that public investment will be lower than it otherwise would have been.

Larry Elliott, economics editor at the *Guardian*, suggested that the announcement on deficit reduction was a "more measured approach to turning round the public finances".[77] He argued that:

> This is a case of once bitten, twice shy. Osborne tried to front-load austerity in the last parliament only to find that the economy, only just out of recession and badly affected by the crisis in the eurozone, could not cope. There are plenty of external threats to the economy, from Greece to China, and it makes sense to spread deficit reduction over a longer period.[78]

Highlighting that the budget deficit was expected to be just under 4 percent of national income in 2015 and the current account deficit around 6 percent, he stated that the economy was structurally weak, and that that the country was not well placed if there was "another global financial shock".[79]

Mr Elliott also suggested that two sides to the Chancellor were revealed in the Budget statement: "the George Osborne who wakes up in the morning thinking up ways to shrink the state" and "Osborne the political magpie not averse to stealing polices from his opponents".[80] He claimed, for instance, that "glimpses of the harsher side of the Chancellor" were shown in his proposals on public sector pay and the decision to limit tax credit and universal credit, while the decision to introduce the national living wage was a "smart move". He concluded that what the Chancellor "offered was not an ideological package, but a dish of Conservative and Labour ingredients seasoned with the promise of economic competence".

Martin Wolf, of the *Financial Times*, was largely critical of the Chancellor's proposal for a national living wage, describing the way it was being used to "justify cuts in support for the working poor" as "bad policy".[81] He argued that it was a "classic example of intrusive regulation" which failed to "protect the bulk of the losers from cuts in tax credits".

[76] Roger Bootle, 'Budget 2015: George Osborne is Still Fighting the Legacy of Gordon Brown's Era', *Daily Telegraph*, 9 July 2015.
[77] Larry Elliott, 'Budget Showed Us the Two Osbornes: the Sadist and the Political Magpie', *Guardian*, 8 July 2015.
[78] ibid.
[79] ibid.
[80] ibid.
[81] Martin Wolf, 'Osborne's Leaden-footed Intervention That Will Weigh on Jobs', *Financial* Times, 10 July 2015.

Quoting figures from the OBR, he speculated on the effect of the national living wage on the labour market:

> The OBR suggests that structural unemployment will be some 0.2 percentage points higher in 2020, equivalent to around 60,000 additional jobless people. The new minimum wage might also impose a loss of 4 million hours worked per week.[82]

Mr Wolf argued that a "combination of a carefully calibrated" minimum wage with tax credits for the working poor, particularly those with children, would be "the best way of helping the least productive even if it means a somewhat higher average tax burden".[83]

Hamish McRae, of the *Independent*, commented on three areas of the Government's economic policy, and considered whether the measures were "robust enough" to "fix the ceiling" while the outlook for economic growth remained "decent".[84] Firstly, he stated that tax revenues, which were "at last coming in strongly", were the main reason that the deficit "this year is likely to be £6 billion lower than it was four months ago". Secondly, he argued that the spending profile outlined in the Budget was "much more sensible than the one projected in March". Thirdly, the shift in the balance of spending between government services and welfare as set out in the Budget, which Mr McRae asserted in the overall pattern of public spending was "not so massive". He explained that:

> If all goes more or less to plan, the country should indeed have the national debt down to around 60 percent of GDP by 2020. That is still well above the pre-crisis level and also above the "sustainable investment rule" promulgated by Gordon Brown. But it will be acceptable by international standards and probably lower than that of most developed countries.[85]

However, McRae questioned whether "these plans are robust enough to cope with the probable threats that the world economy faces".[86] He argued that the programme outlined by the Chancellor was about as "robust as it could be", but he suggested that the biggest danger was that "this economic cycle turns down before the end of the Parliament".

2.3 Businesses and Trade Unions

The Director General of the British Chambers of Commerce (BCC), John Longworth, described the Budget as a "genius balance of politics and economics".[87] He argued that it provided a stimulus for the economy while "continuing the tough task of eliminating the deficit". He also welcomed steady deficit reduction and praised measures such as cutting corporation tax. However, he cautioned that while the majority of BCC members already paid their staff at or above the living wage, they would require assurances that the national living wage would follow an evidence-based approach, which would minimise the impacts on smaller firms.

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[82] ibid.
[83] ibid.
[84] Hamish McRae, 'Budget 2015: You Think You'll Be Paying Less Tax? Think Again...', *Independent*, 9 July 2015.
[85] ibid.
[86] ibid.
[87] British Chambers of Commerce, 'Summer Budget 2015 Confirms Britain is Open for Business', 8 July 2015.

The Director General of the Confederation of British Industry (CBI), John Cridland, also raised concerns about proposals to legislate for "wage increases [businesses] may not be able to deliver".[88] Mr Cridland suggested that the Budget was "double edged" for businesses. He said that firms had been "unwavering in their support for the Chancellor's deficit reduction plans", and he stated that they would welcome the "clarity the new fiscal rules provide". However, he argued that "tax reductions for employers don't appear to match the businesses most affected by a rise to £7.20 in the national minimum wage next April". John Allen, the National Chairman of the Federation of Small Businesses, also suggested that even though the new national living wage would be offset by a "welcome increase in the employment allowance", some businesses would find paying it "challenging".[89]

A number of trade unions welcomed the introduction of a national living wage. However, they also expressed concern about the proposed changes to the welfare system and cuts to public sector pay. For instance, the Leader of GMB, Paul Kenny, stated that:

> On the one hand [George Osborne] offers a vision of a living wage which is welcome. He confirms what GMB has being saying for some time—the vast majority of employers can afford pay rises and no amount of howling from CBI will alter that fact. On the other hand he is taking away money from working families without any guarantee that they will be better off.[90]

Frances O'Grady, General Secretary of the Trades Union Congress, also argued that the Chancellor was "giving with one hand and taking away with the other".[91] Highlighting that the national living wage would apply only to people who were 25 years old and above, she suggested that:

> For young people, it was all bad news as they will not get the minimum wage boost and will suffer from cuts to higher education grants and housing benefit. And it was not a one-nation budget for public sector workers who will face years more of cuts to real wages.[92]

The General Secretary of the Public and Commercial Services Union, Mark Serwotka, described cuts to "social security support from the unemployed, the low paid, and sick and disabled people" as "among the lowest and most despicable acts of any government in recent times".[93]

2.4 Think Tanks and Academia

Opening its post-budget briefing, the Director of the Institute for Fiscal Studies (IFS), Paul Johnson, stated:

> I said after the March Budget that there was only one eye-catching change to the fiscal numbers since the Autumn Statement […] Well, there were more eye catching changes than that yesterday. But the long term plan did change again. In the March Budget, and

[88] Confederation of British Industry, 'Response to Budget 2015', 8 July 2015.
[89] Federation of Small Businesses, 'FSB Comment', 8 July 2015.
[90] GMB, 'Budget Is A Well Crafted Con Trick', 8 July 2015.
[91] Trades Union Congress, 'Chancellor is Giving with One Hand and Taking With Other', 8 July 2015.
[92] ibid.
[93] Public and Commercial Services Union, 'PCS Budget Response: Osborne Rewards Wealthy and Punishes Poor', 8 July 2015.

> indeed in the Conservative manifesto, we were promised budget balance by 2018/19. That magic moment has now been shifted back to 2019/20. In part that reflects a gentler than planned path for spending cuts, including welfare spending cuts. The gentler path does not however represent a let up in the overall scale of cuts—other than for defence.[94]

He went on to focus on three aspects of the Budget: public spending and the public finances; welfare cuts; and tax changes. On public spending, Mr Johnson stated that while the increase in borrowing and delay in reaching the budget balance was "largely down to an easing in the planned public service spending cuts through to 2018/19", the IFS expected "cuts to unprotected departments between 2015/16 and 2019/20 of around £19 billion to be announced in the Spending Review in the autumn".[95] Furthermore, he stated that the decision to raise public sector pay by 1 percent a year for four years from 2016/17, "will take public sector pay levels well below their long term average relative to pay in the private sector".

Turning to the proposals announced on welfare cuts, Paul Johnson argued that the "biggest single cut to welfare spending" would come from "extending the freeze in working age benefits, tax credits and housing allowance out to 2020". He projected that this would affect 13 million families who would lose an average of £260 a year.[96]

He also evaluated how the introduction of a national living wage would offset the effects of reduced tax credits. He concluded that different groups were affected by the different policies, arguing that "many of the gainers from the higher wage" were single childless people or those married to someone on higher earnings.[97] He also argued that it was "arithmetically impossible" for the increase in the living wage to "provide full compensation for the majority of losses that will be experienced by tax credit recipients". He stated that:

> The gross increase in employment income from the higher minimum wage is about £4 billion. Welfare spending as a whole is due to fall by £12 billion and, even excluding the effects of the four year freeze tax credit spending is due to be cut by getting on for £6 billion. And of course many of the recipients of the higher minimum wage will not be tax credit recipients.[98]

On tax changes, Mr Johnson stated that while "this was a big Budget in some respects", it was "deeply disappointing for those who hoped that the Chancellor might take the chance to improve, simply and reform" the tax system.[99] He concluded that it was "not the Budget of a tax reforming Chancellor".

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[94] Institute for Fiscal Studies, '[Summer Post-Budget Briefing 2015: Paul Johnson's Opening Remarks]', 9 July 2015, p 1.
[95] ibid, p 2.
[96] ibid.
[97] ibid, p 3.
[98] ibid.
[99] ibid, p 4.

Writing a piece for the National Institute of Economic and Social Research (NIESR), Monique Ebell also examined the impact of the changes to income tax thresholds and tax credits together with the introduction of the national living wage. She came to the conclusion that:

> The changes to tax credits intensify the disincentives to work for all tax credit claimants earning more than the new threshold of £3,850, except for those earning in the very narrow range between £10,600 and £11,000.[100]

In addition, she found that childless and non-disabled individuals currently working 30 hours on the national minimum wage and lone parents and couples with children currently working 30 hours on the national minimum wage were among the types of families who would be worse off after the changes in 2017/18. However, she also found that childless and non-disabled individuals currently working 40 hours on the national minimum wage would be better off. She labelled the measures announced as "inconsistent", and argued that the "government had worsened the work incentives embedded in the tax credit system".

Jonathan Portes, also writing for the NIESR, examined the impact these measures would have "on the relative attractiveness of the UK labour market to EU migrants and to UK workers, particularly those with children".[101] He claimed that there was little evidence to suggest that the availability of in-work benefits affects migration decisions. However, he argued that wage rates, in particular the level of the minimum wage, did. He concluded that the effect of the changes to tax credits and the introduction of a national living wage was "likely to be to increase labour supply from EU migrants; and to reduce labour supply from low income natives with children".

A number of commentators also examined the effect the changes to tax credits and the introduction of a national living wage would have on employment figures and productivity. For instance, Sam Bowman, Deputy Director of the Adam Smith Institute, argued that the national living wage would lead to job losses.[102] He stated that:

> The new national living wage is a disaster that will condemn tens of thousands of people to long-term unemployment. Almost all of the most methodologically-robust academic studies indicate that increases in the minimum wage kill jobs. Low-skilled people, young people and ethnic minorities are the ones who are hit worst.[103]

John Van Reenen, writing a piece for the London School of Economics and Political Science blog, expressed a similar view. He argued that the best way to achieve sustainable growth and maintain employment was "through concrete plans to raise productivity".[104] He stated that while the most "eye-catching announcement in the Budget" was the national living wage, he claimed that the fear this would lead to job loses was "justified". Mr Van Reenen cautioned that higher wages through regulation could come at the "expense of low paid jobs" and would "artificially increase productivity by forcing the less skilled out of jobs". He argued that the Budget included little detail on what the Government's productivity plan would contain.

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[100] Monique Ebell, 'Taxes, Tax Credits and Welfare Spending', National Institute of Economic and Social Research, 8 July 2015.
[101] Jonathan Portes, 'A Budget for Hard-working Poles', National Institute of Economic and Social Research, 9 July 2015.
[102] Adam Smith Institute, 'Mandatory Living Wage is a Disaster', 8 July 2015.
[103] ibid.
[104] John Van Reenen, 'Summer Budget 2015: Osborne is Right to Raise Wages, But a Clearer Productivity Plan is Required', London School of Economics and Political Science blog, 8 July 2015.

However, reviewing the Chancellor's proposals on apprenticeships and higher education, infrastructure and devolution, and welfare and public spending cuts, he stated that the Budget "gave us some hints of its key features".

Katie Schmueucker, from the Joseph Rowntree Foundation, argued that there needed to be a focus on increasing productivity in sectors of the economy such as retail, catering and care, where "working poverty is more prevalent and implementing the new higher wage rate will be most challenging".[105] She concluded that "only once starter jobs provide stepping stones to better jobs will work act more reliably as a route to improving the living standards of low-income working families".

Commenting on a number of measures included in the Budget, Mark Littlewood, Director General at the Institute of Economic Affairs, described the decision to introduce a national living wage as "intellectually bankrupt".[106]

He further argued that the savings proposed in tax credit spending will "be achieved in ways that undermine work incentives".[107]

Turning to the announcements made on taxation, Mark Littlewood suggested that the Budget was a "missed opportunity" to bring down the 45p rate of income tax.[108] He also criticised the changes to the 40p threshold, describing it as "feeble", because it was "increasing more slowly than wage growth". He argued that the threshold should be raised annually by the higher of wage growth or inflation. Furthermore, on the changes to inheritance tax he predicted:

> Aside from adding additional complexity, the changes may well lead to a raft of unintended consequences by encouraging some cash-rich pensioners to upsize if they have the resources to buy a property for £1 million, further distorting our already dysfunctional housing market.[109]

Responding to the announcements made about public finances, Mr Littlewood argued that the Chancellor deserved "credit for taking an economically sound and responsible position on the necessity of balancing the books".[110] However, he stated that the proposal to cut the deficit at the same rate as during the last Parliament was "modest". He suggested that without "significant changes to spending levels, huge sacrifices will have to be made by future generations through significantly higher taxes or reduced benefits".

In contrast, Adam Memon, Head of Economic Research at the Centre for Policy Studies, expressed support for the measures to reduce the welfare budget, including the introduction of a national living wage.[111] However, he did caution that measures to reduce the tax credits bill could lead to higher marginal tax rates for those on low wages. Mr Memon also welcomed a number of other measures that were announced, including: the reduction in the bank levy; the increase in the personal allowance to £11,000; and the increase in apprenticeships, if the

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[105] Katie Schmuecker, 'We Need Higher Productivity to Improve People's Living Standards', Joseph Rowntree Foundation, 10 July 2015.
[106] Institute of Economic Affairs, 'IEA Reaction to Budget', 8 July 2015.
[107] ibid.
[108] ibid.
[109] ibid.
[110] ibid.
[111] Adam Memon, 'Three Cheers for this Budget', Centre for Policy Studies, 8 July 2015.

funding mechanism was not "overly burdensome". He also praised the Chancellor for remaining "committed to deficit reduction" and "recognising the importance of stronger productivity in increasing living standards".[112] He concluded that a number of measures announced in the Budget would "contribute to resolving those problems".

[112] ibid.