

# Britain: Labour's budget sets stage for further attacks on welfare

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Gordon Brown's third budget as Chancellor of the Exchequer was greeted enthusiastically by most political commentators. It was almost universally acknowledged that he had squared the circle--combining redistribution of income with a business-friendly budget.

This claim is entirely false. The budget was the opposite of redistribution in any progressive sense. The measures benefit big business, not the poor. They signal the end to universal entitlement to benefits regardless of income. The proposals further define New Labour's agenda of eliminating welfare, establishing workfare and returning to a modern-day version of the nineteenth century Poor Laws.

The claim that Brown's budget was redistributive rests on his tweaking income related tax and tax credits in numerous ways. The basic rate of income tax falls from 23 to 22 pence in the pound, National Insurance Contributions are cut slightly for low wage earners and raised for those on top pay. Tax relief on home mortgages is to be ended and the married couple's tax allowance abolished in favour of a means tested child tax credit. A new disabled person's tax credit will be introduced. The net impact of all these changes in the first full year of implementation will be a reduction of £1.4 billion in personal taxation.

The new children's tax credit of £8 per week is "targeted" on the "deserving" poor. It is part of a shift away from universal welfare towards a systemic increase in means testing that includes the working family tax credit, incapacity and widow's benefits, pensions and legal aid. These new tax credits and income guarantees are not entitlements resulting from collective social insurance but discretionary payments by the state, if it deems the recipients "deserving". They can be withdrawn or changed as the state sees fit. This

marks an important redefinition of the Welfare State.

Very few will benefit from these new tax credits. More importantly, the most needy who do not work, will get very little because they are not considered "deserving".

All the changes in personal taxation are more than compensated for by increases in a range of consumption taxes on insurance, tobacco, airport, vehicles and petrol. Consumption taxes fall particularly harshly, in both absolute and relative terms, on the poor and constitute a further redistribution from the poor to the rich.

The combined effect of Brown's three budgets so far leaves the richest 10 percent of households worse off by just £2.53 per week. This is hardly soaking the rich. The working poor benefit by only £7 per week and the very poorest by a miserly £3.48 per week.

According to the Institute of Fiscal Studies, these changes, plus those already implemented, mean that the biggest gains have not been at the very bottom, where people are dependent on benefits, but for those in the second and third lowest income bands--people in low paid work. This is in line with the government's drive to force people off benefits and into low paid work in ways that act as a low wage subsidy. So the sweatshop employers are the real winners.

Furthermore, the overall tax yield is set to rise in the coming period as a result of the shift to taxes on consumption and the new energy tax: the "climate change levy". This is not, however, to be spent on improving public services and renewing the crumbling infrastructure. The Chancellor's budget conveniently left out the fact that his plans for public services and benefits show a fall of £14.5 billion over the next three years as the National Debt is repaid.

Far from letting spending increase, the public services

or the "social wage" will be cut by more than under the Tories. The rapid deterioration in housing, health, education, social services and pensions means that more and more people must make their own provision or make do with inferior services that may soon disappear altogether.

The second theme of Brown's budget was that it was "business friendly". He announced cuts in corporate taxation; tax concessions to business; increased expenditure on start up ventures and incentives for small and medium enterprises and a six-month wage subsidy of £60 a week to companies that take on unemployed workers over the age of 50. This is yet another measure aimed at forcing workers, particularly the better trained and educated, into low paid jobs.

The net result is that Britain is now Europe's premier tax haven and investment location for the major corporations. The central thrust of Labour's budget is to enable Britain's bosses to fight for survival in a global economy. Yet Brown did not even mention the world economy in his budget speech, let alone the gathering storm clouds that have already brought thousands of job losses to what remains of Britain's manufacturing base.

Unable to do very much to defend traditional capital intensive industries such as chemicals, steel and engineering, he has concentrated on the development of the low wage service sector and knowledge-based industries with low requirements for capital: information technology services, "Facilities management", outsourced business services, call centres, and employment agencies. Support services like these are the fastest growing sector and current darlings of the stock market, displacing British Steel and other (former) heavy weights from the top 100 companies. Despite low profit margins, they offer a phenomenal 35 plus rate of return to their shareholders on capital employed. It is this that lies behind the demands of all the international agencies for the liberalisation of services and the external procurement of public services.

Brown's adoption of the international agencies' rules on "transparency, prudence, balancing income and expenditure, reducing the National Debt and borrowing only for capital expenditure", locks future governments into reduced public expenditure. It marks the increasing control by international business over national

economies. Chancellors of all political persuasions must now manage state finances like a latter day Dickensian bookkeeper, who makes minor adjustments to ensure that the ledgers balance. Parliament--whose historical role is to approve the supply of funds to the government of the day--is reduced to near impotence.

The Conservatives had little to disagree with in Brown's budget. The Liberal Democrats' sole complaint was that New Labour had stolen their proposals. There was not a word of dissent from the Labour lefts or trade union leaders. But for some, all of this was still not enough. An editorial in the *Financial Times* said, "The trouble with consensual policy making is that it holds little promise of making significant inroads into heavy social security bills, nor of eliminating labour market restrictions that inhibit industrial restructuring."



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