Britain: Labour delivers a pre-election budget

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Chancellor of the Exchequer Gordon Brown delivered the Labour government's fourth annual budget on Wednesday. Touted as a budget to help working people, it continued the running down of welfare spending.

Brown said that the "story of Britain is the story of hard-working families struggling to do their best by their children". The number of working mothers has increased by one million since 1984, and the number of families in which both parents work has risen from less than one half of the total to more than two-thirds over the same period.

Outlining what he claimed was an increase of over £5bn in public spending, Brown said his budget was particularly targeted at helping such families. The Working Families Tax Credit, aimed at families on low incomes, will rise by £5 a week and maternity pay and childcare allowances are to be increased.

More significant, the chancellor claimed, was his decision to expand the number of people who will be taxed at the lower 10 pence income tax band, rather than at 20 pence in the pound. The Treasury had rejected calls for across-the-board tax cuts, Brown said, in order to target help on the less well off.

Such measures were designed to enable the chancellor to face two ways at the same time. With a general election expected within the next two months, the government wants to be seen as improving living standards for working people. There is widespread unease at the continuing deterioration of public services, such as health and education, which have faced a continuous financial squeeze over the last years. Apparently sympathising with such concerns, Brown said that he had eschewed "representations from some for billions in further tax cuts. But our priority has been and is Britain's public services".

Fundamentally, however, the government is not prepared to do anything that will upset the City of London, which has demanded a tight rein be kept on public spending.

Only one week before the budget announcement the International Monetary Fund had also warned the Blair government against a pre-election "give away". Whilst praising much about the UK's economic performance, the IMF report, released on February 28, said that government plans to increase public spending—floated some time in advance—could lead to a "possible further real appreciation" of sterling, with "negative consequences for investment and growth".

The IMF report was released against the backdrop of growing concerns that the US economy is moving into recession. The *Financial Times* reported that the study "revealed a clear disagreement between the UK authorities and IMF economists over the best way to run fiscal policy". Whereas Brown had argued that tax receipts should equal current spending, thus ignoring government investment over the economic cycle, the IMF urged the government to balance all public spending with taxes, including necessary investment. To do so, the *Financial Times* reported, “Treasury estimates say this could mean tax rises or spending cuts of £10bn by 2004”.

This is not an option for the Labour government. Taking office in 1997, it stuck rigidly to planned Conservative spending targets for the first two years, with the result that the proportion of national income spent on schools, hospitals and pensions is now lower than under the previous Tory government. Brown justified this on the basis of fiscal "prudence", promising that Labour would never return to the days of "tax and spend" policies. According to Brown, previous Labour governments had a record of economic incompetence, because they had sought to overcome social and economic problems by increasing public spending. In contrast, the present Labour government would put economic stability above "popular" measures.

When Brown delivered his budget, he spoke with the assuredness of a man who believed his pronouncements had been vindicated. Under Labour, Brown boasted, Britain "now has the lowest inflation for 30 years; the lowest long-term interest rates for 35 years; mortgages now averaging £1,200 a year, lower than under the last government; more people in work than ever before and the lowest unemployment rate since 1975".

Inflation averaged just 2.1 percent last year, he continued—the lowest annual rate since 1963—whilst interest rates had fallen from 10 percent in 1979 to six percent today, delivering "the longest period of consistently low interest rates since the 1960s". In addition, manufacturing productivity had grown by 4.4 percent and manufacturing exports by 11.8 percent, enabling a higher rate of economic growth at three percent over last year, Brown said.

Public spending restrictions, falling unemployment and a corresponding increase in tax revenues—combined with a sharp hike in indirect taxation—meant the government will have amassed a £16bn surplus by the end of this financial year in

April, Brown went on. This meant it could now announce spending increases worth £5.3bn in 2001-02. As well as the just under £2bn allocated in tax cuts, there would be £1.8bn for hospitals and schools and £2bn cuts in fuel duties and cheaper vehicle tax. Cuts in the level of UK fuel duties—currently the highest in the world—was the main demand of the fuel tax protestors in September last year.

But the chancellor's crowning glory was his announcement that Labour would hand back £34bn in debt repayments; meaning that the Blair government would have repaid more of the national debt during just one term in office than all governments combined over the past 50 years.

The message was unmistakeable—public spending concessions would not be made at the expense of damaging Britain's international competitiveness. Accordingly, the media gave Brown a rousing chorus of approval for satisfying everyone. Rupert Murdoch's rightwing *Sun* newspaper positively gushed support, urging Blair to "clear the decks and call the election," and pledging that it would back a vote for Labour. Based on Brown's budget, other newspapers forecast an early election—possibly even by April 3.

But such excitement could not entirely drown out more cautious voices. In parliament, the Liberal Democrats pointed out that the chancellor had devoted five times as much financial priority to tax reductions than investing in health and education. In addition, of the £5.3bn spending increase, £2bn had already been announced last year.

Other commentators pointed out that the change to the 10 pence tax band would make little difference to the majority of employees—being worth just 60 pence a week to most wage earners—and would not be of any benefit to the low paid. Writing on the BBC's web site, Professor John Curtice, a leading political analyst, pointed out that "what is most striking about this budget is how little of our taxes Mr Brown is giving back to us—no more indeed than the extra revenue that has been flowing into the Treasury because the economy has been doing well". Brown's suggestion that he was going to spend twice as much on health and education as on tax cuts was misleading, Curtice continued; most of the "increase is being funded out of unallocated spending monies rather than an increase in the public spending total. Moreover as in previous budgets he announced how much money he was going to spend over three years rather than just one year, thereby apparently exaggerating the scale of the increase".

The Blair government had first introduced the lower 10 pence tax band in 1999 as part of its "welfare to work" policies. The objective was to justify forcing people into low paid employment by limiting their entitlement to welfare benefits. The government sought to cover over its extension of means-testing—which has led to social security payments and many other benefits being conditional rather than paid as a right—through various changes to the tax system, and administered by employers through the company pay roll.

Brown's budget announced the establishment of a Working Age Agency in the next months. With its launch, unemployed persons will be required to attend interviews that will assess what they must do to secure a job before any benefit is paid. Brown described the measure as "Employment first", and said it would apply to all the unemployed, including lone parents with children under five who are presently exempt.

As for hospitals and schools, both areas face a severe shortage of resources and staff. Public sector wages have been held down, while workloads have increased, consequently health and education have hit severe recruitment difficulties. The government has sought to utilise these problems to force public services into internal competition, based on "performance" indexes and meeting "value for money" criteria. This approach was strengthened in Brown's budget, with his announcement that the extra money for schools and hospitals would be paid directly to each individual institution.

Even the budget's Tory and Liberal critics welcomed these measures, but they were not enough to cancel out what several commentators regarded as Brown's cavalier dismissal of growing problems in the world economy.

In his remarks, Brown referred to the "slowdown" in the US economy, but concluded that the British economy would remain stable.

Whilst the chancellor was enjoying a surplus now, this could rapidly change, his critics warned. The governor of the Bank of England cautioned, "If America really sneezes, we all catch cold". The British economy is considered especially vulnerable to a US recession. Some 15 percent of UK exports are destined for the US. More important still is the relatively high rate of investment by British firms in the American market.

Earlier this month, the Office for National Statistics (ONS) reported that growth in the UK economy had slowed sharply in the last three months of 2000. The ONS said gross domestic product (GDP) had grown 0.3 percent between October and December, less than half the increase in the previous quarter. In January, an independent industry report produced by Ernst & Young predicted a sharp reduction in consumer spending and warned of 200,000 job losses over the next 18 months.

Such forecasts contradict Brown's estimate that UK economic growth would run at two-and-a-quarter percent up to 2003, which would allow present levels of public spending to be sustained. Brown expects government borrowing to stabilise at 1.1 percent of GDP (£12bn) by 2004. Such assertions represent a "big leap of faith" on the chancellor's part, the *Financial Times* warned on Thursday.