Britain: Brown delivers a budget for the rich that penalizes the poor

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Gordon Brown's last budget as chancellor of the exchequer ended his time at the treasury as he began it—robbing the poor and gutting the social services on which millions rely in order to benefit the rich. It was, at the same time, a declaration that, should he become prime minister as expected after Tony Blair steps down, the interests of big business will remain his paramount consideration.

Only day's before the budget, the Labour Party's ruling National Executive Committee set out the rules for any leadership contest triggered by Blair's retirement. With reports that Blair is expected to tender his resignation within a matter of days following the Scottish and Welsh election on May 3, Brown could take over as prime minister by the end of June.

Underscoring his role as the joint architect of New Labour alongside Blair, Brown's budget provided little or no relief for the vast majority of the population. Instead they are to foot the bill for his various acts of largesse directed towards the major corporations.

The guidelines for his budget had in fact already been set down in advance by the International Monetary Fund.

Earlier this month, the IMF warned Brown that his "credibility" faced a "critical test" and that he must "avoid tax increases" and "restrain [public] spending." Despite praising Britain's economic performance as "impressive," it cautioned that the UK's "openness may also increase exposure to downside global risks." Housing prices were "overvalued" and at risk of an "abrupt downward adjustment", it said, stipulating that building the "cushions needed to respond to adverse shocks should be a priority" as regards public finances.

In meeting such demands, Brown announced a 2 percent cut in the headline rate of corporation tax, from 30 percent to 28 percent, and a new annual investment allowance for plant and machinery that will lessen their tax liability. This would ensure that the UK's rate would be "lower than America, Germany, France, Japan, and all of our other major competitors," he said.

The move was welcomed by the Confederation of British Industry, which praised the chancellor for having "recognised the need to restore the UK's international tax competitiveness." Paul Davies, UK head of tax at Ernst & Young, said that it showed "the UK is once again on a competitive path" and would "reassure those companies thinking of moving offshore."

In fact, few major corporations pay the 30 percent rate due to various government approved loopholes. Many pay as little as 20 percent, some even lower and some practically nothing. The cut is particularly noteworthy given that the *Financial Times* had complained that falling tax revenues represented a major economic problem, with "corporate tax revenue the villain of the piece."

Whilst handing out a bonanza for the largest transnational corporations, Brown raised the rate of corporation tax on small businesses, which employ almost 60 percent of the private sector workforce but which he calculates are less able to relocate overseas, from 19 percent to 22 percent in 2009.

He also raised the threshold at which inheritance tax kicks in from £285,000 to £350,000 by 2010. Inheritance tax has been the subject of a noisy campaign by the *Daily Mail*, the *Times* and others who have protested that rising house prices will effectively penalize more and more homeowners. In fact, only a tiny minority is liable for any payment and Brown reassured his audience that, with his changes, just 6 percent of the population would be affected.

To add insult to injury, Brown also announced that the starting threshold for the top rate of income tax will rise to £43,000 from 2009.

To the extent that Brown made any pretence of addressing broader concerns, he said that the basic rate of

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income tax will be cut to 20 pence in the pound from 22 pence in April next year. For the least well off, however, Brown's budget will mean an increase in income tax. The 10 percent initial rate at which tax is paid will be abolished, making 20 percent the new starting rate.

The Institute for Fiscal Studies (IFS) said: "The changes to personal taxes seem to have been carefully designed to ensure that this budget is not a tax raid on the rich: those earning over around £42,000 a year will find their disposable income almost unaffected by the personal tax changes. However, almost one in five families in the UK will lose."

Even the increase in working families' tax credits that the government claims will offset tax increases on the poor is tied to changes in the welfare benefit system designed to force the unemployed, single parents and the disabled to take up low-paid work. The credit is in fact a subsidy to cheap labour employers. The chancellor served notice that this is to be vastly extended.

Announcing a "partnership for jobs with our major retail companies—Tesco, Sainsbury's, Asda, B&Q, Marks & Spencer, and the British Retail Consortium," Brown said the scheme would create 100,000 supposedly new jobs in a notoriously low-paid sector. Similarly, employers would receive between £2,000 to £3,000 to take on and "train" unemployed 16- to 17-year-olds. Those aged below 18 years of age are exempt from any welfare benefits and the minimum wage.

Much of the increases in spending on education and health outlined by Brown were in fact money that had already been pledged, and flow from the creeping privatization of the public sector.

In his pre-budget outline, Brown had indicated that some£18 billion worth of public assets were to be sold off. In his budget announcement, this had doubled.

The radio spectrum used by analog television, due to be entirely replaced by digital broadcasting, is to be sold off to the mobile phone companies over the next two years.

Some £6 billion of the debts of the Student Loan Company are also to be hived off to the private sector. But since student loans, at least up to now, have been repayable at no more than the rate of interest—a rate unattractive to the financial institutions—they are, according to the *Financial Terms*, likely to be sold at a large discount to compensate their new owners for the non-commercial terms. In other words, the government is happy to subsidise the banks, but not students whose indebtedness is currently estimated at £20,000 plus. The National Union of Students has already raised concerns that private companies will raise interest to commercial rates, throwing millions of students even further into debt.

This was coupled with a £26 billion "efficiency drive" in central government, which will translate into massive cuts in the public sector. Planned job losses in the civil service are expected to rise from 70,000 to 100,000. Only last month, Brown had stipulated that public sector wages would increase by an average of just 1.9 percent this year—an effective wage cut of 2.3 percent.

The chancellor also confirmed that total public spending is to rise by just 2 percent a year on average during the three-year period of the next Comprehensive Spending Review for 2008-2011. This is, as the IFS states, half the 4 percent annual increase since 2000 and effectively a reduction in public spending by 0.6 percent of national income. This is equivalent to an "£8 billion cut, rising to £10 billion if you include his tentative projection for 2011-12," it said.

Underlining Labour's commitment to the militarist and neo-colonial agenda it shares with the Bush administration, Brown announced an increase in spending on security and defence whose budget is to rise to £2.25 billion in line with Britain's "demanding international commitments" in Afghanistan, Iraq and elsewhere.

It is a measure of just how far removed Labour is from working people that the *Guardian* reported jubilation amongst backbenchers at the chancellor's measures. "This is just what the doctor ordered," it cited one backbench Labour MP exclaiming, reporting that "Labour MPs were confident the package was a winning one" in the May elections.

The budget certainly won backing from the likes of Rupert Murdoch—whose *Sun* newspaper gushed with praise for the chancellor. But it is a devastating blow to those sections of the Labour Party and the trade unions who have tried to portray Brown as a more egalitarian "old-school" alternative to Blair.

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