

A budget for British business from Darling and Brown: Too little, far too late

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Extraordinary claims are being made for Chancellor Alistair Darling's pre-budget report and even more extraordinary hopes are being pinned on it.

The pro-Labour *Guardian* has been most forthright in hailing the report as marking the end of New Labour and a return to traditional Keynesian economic policies and measures of wealth redistribution.

It editorialised that "Everything changes", commenting that "Just a few weeks ago the chancellor's statement would have been the stuff of fantasy—or nightmares. Alistair Darling read the last rites for New Labour yesterday. He abandoned, through necessity, the deal Tony Blair and Gordon Brown struck with the electorate a decade ago, that progressive politics could be paid for without overt economic pain."

It continued that, "His statement was as political as it was economic; a redefinition of the rules by which Labour behaves... The government has found a purpose, which is to tax the rich to help the poor, something it has never dared admit openly before..."

"Old political certainties now lie like timber, uprooted in the storm. So many things that seemed probable a few months ago—that Mr Brown would continue to falter, and perhaps fall; that the Conservative lead was too big to lose—no longer stand. Everything is possible now. An extraordinary, history-changing contest has been got underway."

Polly Toynbee was even more effusive. "The New Labour era is over—welcome to social democracy," she proclaimed.

As for the basis of these grandiose claims: "Symbolism is everything in the volatile irrationality of these times," she continued. "The words are spoken: 'Those who have done best in the last decade will pay more'—an average of £3,168 more for earners over £140,000 in 2011."

This is in reference to what the *Guardian's* editorial also designated as "a move of astonishing symbolic power", while being forced to admit it was something of "lesser fiscal importance"—a 5 percent increase in the top rate of income tax to 45 pence for those earning over £150,000. This covers just 300,000 people, the top one percent of earners and is expected to pull in just £2 billion when it is finally implemented in three years time.

However, in every major respect the essential *political* character of New Labour is preserved in this budget. Darling and Prime Minister Gordon Brown have delivered a series of economic

measures framed entirely in the interests of big business, with only the mildest elements of a redistributive character that are aimed at stimulating consumer spending in order to benefit the major retailers and credit providers.

The measures together make up a fiscal stimulus package of £20 billion by April 2010—over 1 percent of GDP.

VAT is to be cut from 17.5 percent to 15 percent in an attempt to put £12 billion into the economy. The aim is to encourage working people to continue to spend and run up debts, but the VAT cut on petrol, tobacco and alcohol will be offset by increasing duties. And many household items will be unaffected by the change. Gas prices have risen by 35 percent this year. Little wonder then that surveys suggest that spending patterns will remain unaffected, particularly as cuts in prices of around 20 percent are already being made by desperate retailers to little effect.

The increase in income tax allowances announced earlier for the poorest that were penalised by government tax changes will be made permanent and raised, so this will be worth £145 a year to 22 million lower paid taxpayers.

National insurance will rise by 0.5 percent from 2011, hitting everyone earning more than £20,000. To put things in perspective, this is expected to raise £5.4 billion, more than double the 5 percent increase in the top rate of tax.

A planned child benefit increase of a meagre £1.20 a week is brought forward to January from April and pensioners will get a one-off payment of £60 on top of their £10 Christmas bonus in January.

Changes to income tax and national insurance mean that somebody working and earning £10,000 will be just £118.80 better off a year until 2011 and £215.58 better off in 2012—a figure that will be eaten away by rising costs.

Despite the references to a return to Keynes, there will be no new government spending. Instead £3 billion-worth in capital projects are to be brought forward from 2010-11. At the same time Darling announced cuts, euphemistically described as "efficiency savings" that must result in job losses. He stated that the government has already achieved efficiency savings of £26.5 billion, £5 billion over target, and intends to make additional cuts of £35 billion by 2010-11.

The largesse of government was again directed overwhelmingly towards the financial and corporate sector. Banks will be given additional funds worth £2 billion to make lending to firms easier, focusing on small businesses. An additional £1 billion is made

available through the export credit guarantee department. A planned increase in corporation tax for small companies has been deferred. Darling declared this as "A package to support business, worth £1 billion of tax cuts, £2 billion in loan guarantees, along with £4 billion of European money."

Most significantly, Darling made an historic change to corporate taxation exempting transnational corporations from taxes on their foreign profits. They will be allowed to repatriate monies earned overseas tax free from next April. This measure is not disguised as aid to small businesses, as with the cash injections to the banks. "I will introduce an exemption for foreign dividends in 2009 for large and medium businesses, and improve our rules for taxing Controlled Foreign Companies," Darling said.

Richard Lambert, director general of the Confederation of British Industry, welcomed the move as a disincentive to moving "tax domicile overseas." The government has also abandoned plans to implement tax avoidance measures until there has been "further consultation".

The stimulus package is being routinely linked to Darling's admission that government borrowing is to rise to £78 billion this year, and £118 billion next year. In fact this rise was already well on the way—thanks to the earlier £500 billion government bailout of the banks and its massive overestimation of the prospects for the UK economy. Tax revenues for the financial sector were down 35 percent, for example. As a result, debt as a proportion of GDP is predicted to rise to anywhere between 57 and 68 percent in 2013-14. Total national debt will top £1 trillion by 2012-13.

These are by any criteria massive figures. They make references to Labour having returned to the reformist "tax and spend" policies of the 1970s faintly ridiculous. That is, in any case, untrue. Labour has adopted measures to stimulate the economy and consumer spending in the interests of capital, not out of a renewed belief in wealth redistribution. Overall national wealth continues, as always, to flow inexorably upwards into the coffers of the rich, not down into the pockets of the working poor.

What makes such comparisons more fatuous is the scale of the crisis facing British and world capitalism. Darling was forced to acknowledge that Britain was entering a recession, estimating an economic shrinkage of between -0.75 percent and -1.25 percent for 2009. But he then asserted that the economy would start to grow once more by the end of the year and forecast growth for 2010 of between 1.5 percent and 2 percent, at which time the reduction in VAT is to be rescinded.

This is wildly at variance with all economic indicators, which point to a much more severe and protracted recession for both the UK and the world economy. The Organisation for Economic Co-operation and Development (OECD) has warned of a "severe" economic downturn in the UK in 2009, as, thanks to its massive finance sector, one of the countries "most directly affected by the financial crisis".

"Many OECD economies are in, or are on the verge of, a protracted recession of a magnitude not experienced since the early 1980s," the report said.

It also warned that worldwide economic conditions could still worsen significantly due to "further failures of financial institutions," a "longer period before financial conditions

normalise," and the possibility that emerging market countries such as China will be badly hit by the downturn in world trade.

OECD chief economist Klaus Schmidt-Hebbel warned that the situation was difficult to read and there was a risk of it being worse than forecast: "The recession which we are heading into now may turn out to be even deeper and even the world economy at large may go into recession in the next months."

The global financial collapse, plunging share prices and manufacturing and retail failures have already swallowed up bailouts and cash injections that dwarf Darling's latest offerings. Trillions of dollars have been made available by governments around the world, usually leading to a temporary rally on the stock markets—that is then eaten up by the speculators.

Only last month, bailouts by the US and Europe worth \$2.6 trillion had no impact on the readiness of the banks to lend, without which there can be no talk of economic recovery. This prompted Brown to appeal for a worldwide fund worth £320 billion to be provided by China, Russia and the Gulf states to save countries facing a cash crisis and even state bankruptcy. At the beginning of this month, China announced a \$586 billion economic stimulus package that led to a rise on the markets followed by massive losses of \$1 trillion.

The IMF has stated that up to two percent of the world's income, amounting to \$1.2 trillion dollars, needs to be spent on reviving world trade.

Brown and Darling are gambling that their readiness to make money available to the corporate sector to combat recession will boost confidence in the economy. But, at best, Darling's measures might add 0.2 percent to the UK's [still negative] growth performance according to expert opinion.

In addition they are making a political calculation—to provide a minimal and temporarily relief to working families to boost Labour's chances in a possible early general election sometime next year. But these plans could yet backfire, if there is a further deterioration in the economy.

The day after the pre-budget speech was delivered, a Treasury report drafted by Sir James Crosby, the former chief executive of HBOS, said that net new mortgage lending is likely to fall to less than zero next year.

With homeowners paying off mortgages, banks are putting less money back into the housing market than they are taking out—a historically unprecedented collapse in funding that presages further falls in house prices. Net new mortgage lending has already fallen from £108 billion in 2007 to an estimated £40 billion this year. With property ownership once serving as the biggest asset against which borrowing was made, credit and consumer spending must in turn continue to decline—pushing unemployment ever nearer to the three million mark.



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