UK budget gives more handouts to business elite

Robert Stevens
25 March 2011

Chancellor of the Exchequer George Osborne used his second budget Wednesday to gift further handouts to big business and the super rich.

Combined, last October's Comprehensive Spending Review and an emergency budget in January have already imposed the most drastic austerity measures against the population in 80 years. So Osborne opened his speech stating, "We have had to undertake difficult measures. But we have already asked the British people for what is needed, and today we do not need to ask for more".

Despite such statement, the latest budget will result in a further decline in the living standards of millions of people.

Osborne claimed economic growth was be driven by the private sector. But figures from the Office of Budget Responsibility (OBR) revealed the British economy will continue to drastically contract. The OBR downgraded its growth forecast from 2.1 percent to 1.7 percent this year and from 2.6 percent to 2.5 percent in 2012.

This did not prevent the chancellor from outlining billions in tax breaks to the super rich and corporations and offering them incentives to set up in 21 newly established "Enterprise Zones".

Corporation Tax will be cut by 2 percent to 26 percent from next month and will be cut a further 1 percent each year, until the end of this parliament, reaching a low of just 23 percent. This single measure is expected to save corporations £4.2 billion over five years.

Osborne said this would mean Britain would go from having the sixth highest corporation tax rate in the world to the lowest in the G7. It would be "16 percent lower than America, 11 percent lower than France and 7 percent lower than Germany", he said.

"Let it be heard clearly around the world—from Shanghai to Seattle, and from Stuttgart to São Paulo: Britain is open for business".

The budget laid the basis to establish Britain as the "most competitive tax system in the G20", he boasted.

The signal was received loud and clear. Within hours Martin Sorrell, head of advertising giant WPP who moved the firm to Ireland (with a Corporation Tax rate of 12 percent) in 2008, said that the company may now return to the UK. The United Business Media reported that it was now also "actively reconsidering" returning its tax base to the UK.

Even more policies favourable to millionaires and billionaires were on the way, said Osborne. The current 50 pence top rate of tax was a "temporary measure", he said, and was under review.

Regulations estimated to cost businesses £350 million are to be abolished. Deregulatory measures are to be particularly targeted at firms employing less than 10 people. In addition, companies set up in the new Enterprise Zones will receive up to 100 percent discount on rates and will be able to use enhanced capital allowances.

The first 11 zones are to be sited in some of the largest cities in the UK—all blighted by unemployment and entrenched poverty. These include Birmingham, Manchester, Leeds, Liverpool, Tyneside, Bristol, Derbyshire, Nottinghamshire and Sheffield. A zone is to be established in Royal Docks in London.

Most media response to the budget has concentrated on the decision to cut fuel duty by 1 pence per litre, to be funded by a tax on oil companies. A cut on fuel duty has long been demanded by business, under conditions where petrol prices have risen by 5 pence a litre in the last month alone, to an average of £1.36 a litre. The chancellor also announced that this year's planned 4 pence increase in fuel duty was to be delayed, but only until January.

For most, the 1 pence cut will have little impact and is outweighed by the 3 pence Value Added Tax rise on fuel, already announced. Moreover, the levy on the major oil companies will hardly dent the super-profits they have gouged as a result of the soaring price of oil. It is likely that the tax will simply be passed on to motorists. The following day Osborne acknowledged there was nothing to prevent oil companies putting prices up to offset the levy.

In another empty gesture, Osborne said the banks would not be able to benefit from the Corporation Tax cut and

© World Socialist Web Site

would have to face an increase in the miniscule bank levy. This entailed a tiny rise to just 0.078 percent from 0.075 percent, which is expected to add only £285 million to the current £2.5 billion total. This amount is a drop in the ocean, when just one bank, HSBC, reported a profit last year of £11.8 billion.

Little noted by the media was that from April 2012 direct taxes will be linked to the consumer price index (CPI) instead of the retail price index (RPI). The RPI is historically the higher of the two inflation measures, as it includes mortgage payments. Currently CPI inflation stands at 4.4 percent while RPI is 5.5 percent.

This follows the government decision last June to link pensions and benefits to the CPI, lowering in one stroke their value to millions of elderly people and families.

Pensioners also face a major cut in living standards, as winter fuel payments are to be cut.

Nicola Roberts, the tax director of accountants Deloitte, said, "Switching to CPI is a clandestine way to raise tax. Most people won't understand what this change in the inflation rate means or the corrosive effect it will have on their earnings and benefits".

According to thisismoney.co.uk, "The Government expects to save £1.5 billion in the financial year starting on April 6 as a result of its inflation switch. In the 2015-16 year it expects to save £10.6 billion bringing total savings over the five years to an astonishing £27.6 billion".

The website commented, "By 2015 RPI at 3.8% is expected to be almost double the CPI rate of 2%. Linking the starting level for paying National Insurance [NI] to CPI from next April will cost 21 million workers an average of £6 a year".

It warned, "But the effects gradually accumulate and become quite dramatic. And by using the Government's inflation forecasts, the change in the starting level for paying NI will cost workers up to £68 a year. An extra 40,000 low-paid workers will be paying NI next year alone because of the use of the lower inflation measure".

Big business gave its seal of approval to the budget. Confederation of British Industry Director General John Cridland said, "What we saw today was really, really important".

"Britain was beginning to feel like a high-tax nation", he complained. "This signals that it's time to come back home. The Government is showing that Britain is open for business".

The *Financial Times* said, "After nearly a decade of lobbying, business has got most of the changes to the corporate tax regime that it was seeking. Cutting the corporate tax rate is the right way to attract multinational businesses and investment to the UK to support the recovery".

The *Daily Mail* editorialised that it was an "astute Budget for these terrible times" and enthused that there was to be no let-up in imposing massive austerity on the population. "The best news about this Budget", it wrote, "is that it shows how determined the Chancellor is to press on with his programme of cuts, with no weakening of his resolve to shrink Britain's grotesquely inflated public spending and boost the private sector".

The claims that a budget based on "private sector growth" will be able to shield the British economy from the ongoing world financial crisis are nonsense. It is the entirely parasitic nature of the British economy that means it is among the hardest hit by the credit crunch, falling stock markets and rising prices.

The *Guardian* said of Osborne, "his claim to be delivering a budget for growth is undermined by the ominous prospect of lower growth, rising unemployment and higher borrowing".

Even the pro-Conservative *Daily Mail* felt obliged to point out, "Whether we see growth bounce back later this year and into next year will depend on a variety of factors, many of them outside the Chancellor's control, including the situation in the Middle East and its impact on oil prices. The impact of the dreadful events in Japan is still uncertain. Closer to home, there is still risk in the euro area, where the independent forecasts are for growth to be subdued in 2011".

The *Evening Standard* columnist Chris Blackhurst said, "Within the tight space he had, the Chancellor went just about as far as he could", before adding, "In the cold light of today, that is the most depressing aspect to the Budget".

Pouring scorn on the government's private sector-led "recovery" hyperbole, Blackhurst lamented, "Meanwhile, Germany is producing high-tech, advanced goods that the world wants, and China is supplying the rest. Because that's what confronts us: we're at the mercy of events outside our control and we're far behind where we need to be".

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site