UK budget brings a bonanza for the rich and pain for workers

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The Conservative-Liberal Democrat coalition's budget is unambiguously aimed at enriching the top 1 percent at the expense of everyone else.

Two years into the most severe austerity measures since the 1930s, during which time living standards have plummeted, Chancellor George Osborne announced the top rate of tax will be cut from 50 to 45 pence.

The 50 pence top rate applies only to those earning over £150,000 per annum—just 1 percent of the population. Introduced by Labour in 2010 as a temporary measure, it was in large part aimed at deflecting attention from from the multibillion-pound bank bailout that had rescued the fortunes of the super-rich at society's expense.

For the most part, Britain's wealthy have as usual managed to avoid paying anywhere near the amount set due to what was described by *Channel 4 News* as "legitimate tax avoidance". But they are bitterly hostile to any infringement on their state-supported riches and had demanded its swift removal.

Osborne cynically cited extensive tax avoidance as proof that the top rate was worthless, had brought in far less than the £2.6 billion anticipated and should be scrapped.

He did so despite opinion polls showing that two thirds of those questioned were in favour of maintaining the top rate. In fact, more than 90 percent felt that the rich should be subject to greater taxation.

The government's decision to defy popular sentiment has seen the media describe the tax cut as "bold" and "audacious".

Of greater significance still when it comes to enriching the already rich, Osborne also announced that corporation tax is to be slashed to 23 pence by 2015—a total reduction of 5 percent since the coalition took office. A 20 percent rate, now within reach, could be a magnet for foreign investors who might otherwise default to Ireland or Singapore.

According to Felicity Lawrence in the *Guardian*, this move, combined with major changes to how multinationals based in the UK are taxed on profits from their overseas subsidiaries, will lose the Treasury £20 billion over the next three years.

The new policies are proof, were any needed, of the extent to which government policy is dictated by big business. The multinationals had themselves formulated the tax changes, Lawrence wrote. Under Labour, a working group on corporate tax reform consisted "almost entirely of tax directors from businesses with large numbers of offshore subsidiaries," including Vodafone, Shell, GlaxoSmithKline and Barclays bank.

The coalition has continued where Labour left off, seconding Robert Edwards, a senior manager at accountants KPMG with responsibility for advising "multinationals on tax-efficient cross-border financing and restructuring", to the Treasury to help develop the new rules.

Tax cuts for the super-rich are to be paid for by the working class, especially the most vulnerable—pensioners and those on welfare.

Under the guise of simplifying pensions, Osborne said age-related allowances paid to half Britain's elderly will be frozen. Dubbed a "granny tax" the move, which affects 5 million people, will save £5 billion and will cost pensioners between £60 and £200 per annum.

Welfare is also to be cut by a further £10 billion by 2016—an estimated average loss of £500 per annum for the 18 million people currently claiming benefits.

This comes on top of the £18 billion cuts in welfare already announced. Even before the latest budget, the government had set out plans to cut overall public spending by 5.3 percent—a far higher amount than attempted by the Thatcher Conservative government in the 1980s.

Nearly one person in every 10 have lost their jobs since the financial crisis first exploded in 2008. Hundreds of thousands of jobs have gone in the public sector. On Thursday, it was reported that staffing levels in the National Health Service had fallen by almost 20,000 between 2010 and 2011. The reduction, which is part of the government's plans to speed up the privatisation of health care, includes the loss of 3,500 nursing jobs.

Unemployment is near the 3 million mark, with more than 1 million 16- to 25-year-olds jobless. Osborne cited the rise in welfare costs—the result of government austerity—as justification for even greater cuts in social provision.

According to the Institute for Fiscal Studies, the measures will leave median households worse off by £160 next year. It estimates that tax and benefit reforms due to be implemented in 2012-2013 amount to a "net 'takeaway' of about £4.1 billion… rising to about £9.8 billion (£370 per household) in 2013-14."

This is in addition to the cost of indirect tax increases—such as the rise in Value Added Tax (from 15.5 percent to 20 percent) last year, "totally about £12.8 billion per year".

"The largest average losses from the 2012-13 reforms as a percentage of income will be among those in the bottom half of the income distribution," with families with children the most disadvantaged, the IFS said.

Just as they have done in every other instance, the Liberal Democrats fully endorsed the measures. With elections due in May, the party had claimed it was putting up opposition to Conservative tax cuts for the super-rich—demanding a trade-off that would benefit working people. In the end, the coalition offered the sop of a 7 percent tax on houses costing more than £2 million and a rise in the basic rate at which people begin paying tax to £9,250. Such measures have a negligible impact.

More significant was the announcements on pay. Public sector pay is to be "localised" so that salaries reflect "local economies", Osborne confirmed.

"Some departments will have the option of moving to more local pay for those civil servants whose pay freezes end this year," he said. The new pay rates could be introduced for 140,000 civil servants as early as April and for the whole of the public sector within 12 months.

On Monday, Liberal Democrat business secretary Vince Cable said that the national minimum wage for 16- to 20-year-olds is to be frozen. Minimum pay for 18- to 20-year-olds will remain at £4.98 an hour, and for those aged 16 and 17 years old stays at just £3.68. So-called youth apprenticeships will increase by 5 pence to £2.65 an hour.

The government's measures are provocative. But it can proceed because it knows it will face no serious opposition from Labour or the trade unions. Indeed, Osborne was able to argue that the fragmenting of public sector pay was originally suggested by the Labour government. While criticising aspects of the government's budget, Labour refused to say if it would restore the 50 pence tax rate.

Crucially, the budget came just days after the trade unions announced a total capitulation in their supposed fight against the assault on public sector pensions. There will be no national strike on March 28 as previously threatened by the unions involved, as one by one they have looked to cut a deal with the government.