UK Conservative budget heralds ever deeper austerity

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Conservative Chancellor George Osborne unveiled his second budget in four months yesterday.

March's budget took place under conditions of a Conservative-Liberal Democrat coalition. Wednesday's announcement was the first opportunity after May's General Election for the government to bring forward the first wholly Conservative budget since 1996.

Against the backdrop of a major crisis in the eurozone, with Greece on the brink of a Grexit, Osborne claimed that the lesson from Athens was, "if a country is not in control of its borrowing, the borrowing takes control of the country."

Tales of "profligate" Greece, with its population living beyond their means, have long been central to the British and other European governments' insistence on austerity. "Take the medicine, or you will end up like Athens" is the mantra.

Naturally, nothing is said of the criminal policies of the ruling elite in Europe, involving huge bailouts to the banks that have reduced working people in Greece to penury. Nor did Osborne make any reference to the resounding "No" to further austerity delivered in Sunday's Greek referendum, nor the quarter-of-a million people who demonstrated in London last month against further cuts.

With good cause.

While Osborne spoke of a "one nation budget" that would ensure "economic stability" and help "working people", he delivered a budget that seeks to replicate the situation in Greece.

Described privately by some Conservatives as a "moment of maximum pain," Osborne set out measures that will plunge millions of workers and youth further into economic insecurity and poverty.

Welfare cuts are intended to raise £34.9 billion so as to ensure, Osborne claimed, a budget surplus by 2020. Working age benefits, including tax credits introduced by Labour as a means of subsidising low pay, are to be frozen, reduced and/or phased out. The government pledged to slash the numbers eligible for one or another benefit from nine out of ten people in 2010, to just half.

Tax credits and universal credits will be restricted to the first two children in a family. From April 2017, those with larger families will receive no extra help.

Only last week, the government changed the measure through which child poverty was calculated. This came after official figures revealed that 4.1 million children are in "absolute poverty", an increase of 500,000 children (or 14 percent) in the lifetime of the coalition. Now, families with more than two children (12 percent of the total) are to be hit harder still.

Osborne cynically claimed that changes to tax credits will end the scourge of low pay by ensuring companies paid higher wages. To this end, he announced a new National Living Wage (NLW) to supposedly guarantee a minimal pay rate of £7.20 in April next year and £9 per hour by 2020.

This is effectively a repackaging of the National Minimum Wage, currently set at £6.50 for those aged 21 years and over. The NLW will apply only to workers over 25. But according to The Resolution Foundation think tank, the NLW will in no way compensate for the impact of cuts to in-work benefits. The current NMW was predicated on in-work benefits, it stated, meaning that those losing out would require a 26 percent pay rise (or £12 an hour) to break even.

Moreover, Osborne announced that pay increases in the public sector would be capped at a maximum of just 1 percent over the next four years.

There is also to be a reduction in the cap on total welfare benefits any household can claim from £26,000 to £23,000 in London and £20,000 in the rest of the country. An estimated 90,000 households will lose an average of £60 a week as a result. Housing benefit for under-21-year-olds is to be eliminated.

A "pay to stay" plan will force those living in social housing with an income above £40,000 in London and £30,000 outside the capital to pay the market rate for their homes. Housing Associations are to be compelled to sell off their homes under a new right-to-buy subsidy, further eroding the housing stock.

The burden is to fall especially on the young. Osborne said that welfare should protect only the elderly, vulnerable and disabled. In line with this, the government announced cuts to allowances for new unemployed claimants, including a "youth obligation" on all those aged between 18 to 21 years to either "earn or learn."

They will be cut off from benefits after six months if they fail to take on "an apprenticeship or traineeship". At the end of 2014 there were 850,000 people on apprenticeships, up by 73 percent since 2009. Many of these earn just £2.73 an hour, as they fall outside NMW regulations.

The government had already boasted that it intended to increase the numbers to 3 million over the next years. An estimated 42 percent of those on apprenticeships are aged 25 years and over. A proposed levy on large businesses to help fund the apprenticeship scheme had already been rejected by the Confederation of British Industry.

This is coupled with the announcement that means-tested student grants are to be abolished. Currently paid to the poorest students to help with tuition fees and living costs, they will be converted to loans from next year. Tuition fees are to rise in line with inflation.

Osborne made much of the claim that those with the "broadest shoulders" would share most of the burden of fiscal austerity. But the rhetoric is not matched by the reality. A paltry £5 billion is to be directed at a "crackdown" on tax avoidance, along with minimal changes to the rules affecting "non-domicile status," by which the global super-rich avoid taxes.

An increase in the level of personal allowance to £11,000 from next year will not help the 6 million people already so poorly paid they do not make the grade. Likewise, a hike in the higher rate of tax to £43,000 is of advantage only to 10 percent of the higher earners.

Abolition of the inheritance tax, payable on homes worth £1 million, benefits only the 6 percent of wealthiest families. Meanwhile, corporation tax is to be slashed from its current 20 percent—the lowest rate in the G7—to 19 percent next year and 18 percent by 2020.

In contrast, Osborne announced that he would "commit additional resources to the defence and security of the realm" including a guarantee that Britain would match the NATO requirement of 2 percent of national income.

Even as he outlined these measures, Osborne acknowledged that he had pushed back his date for a budgetary surplus by one year, and revised downwards a forecast GDP growth of 2.5 percent this year, to 2.4 percent.

This is despite the fact that, between 2009 and 2013, government spending per person, adjusted for inflation, fell in Britain by more than Portugal or Italy.

As in Greece, the spending cuts have nothing to do with achieving "economic stability". Much of the austerity already imposed in Britain has gone to servicing interest repayments—currently standing at £49 billion per annum—on the massive debt incurred by the 2008 bank bailout.

The objective, as the chancellor admitted, is to achieve a "new settlement"—one predicated on the destruction of all the social rights won by working people. That is why the *Telegraph* newspaper trailed the budget with the demand "Shrink the state, Chancellor."

"[T]here is no good reason for the state to make up more than a third of the economy that supports it," the newspaper complained.

The chancellor's announcement will mean that UK government spending as a proportion of GDP will fall to approximately 35 percent, the same level as in the United States and the lowest level in Britain since the 1930s.