UK budget: austerity for workers and billions for bankers

Robert Stevens
27 October 2021

UK Chancellor Rishi Sunak delivered a class war budget yesterday, ending the limited social concessions passed during the pandemic and returning to a slash and burn Thatcherite orthodoxy.

The intended direction of travel is epitomised by the statement by the Office of Budget Responsibility statement that public spending is set to fall “back sharply from its peacetime high of 53.1% of GDP in 2020-21 to 45.1% this year and to 42.1% next year as pandemic-related support comes to end.”

Sunak, who is worth an estimated £200 million and is married into one of India richest billionaire families, rubber stamped a series of massive attacks on workers’ living standards, and yet more subventions to the banks and super-rich who have made a financial killing during the pandemic.

It was Sunak’s third onslaught against workers in the space of eight months, following his budget in March and his announcement in September of a hike in National Insurance Contribution taxes and an end to the triple lock pension system.

Sunak’s budget was a masterclass in smoke and mirrors, heavily trailed as doling out tens of billions in giveaways to workers who have been hammered during the pandemic.

It was nothing of the sort. In his speech to MPs, Sunak declared he was inaugurating an “new age of optimism.” This was a reference to former Tory Chancellor David Cameron, who in a 2009 speech ushered in the “Age of Austerity,” a year before becoming prime minister. In office Cameron, in government with the Liberal Democrats, unleashed a savage onslaught against the working class, including £100 billion in cuts to local council jobs and services.

But Sunak’s age of optimism is reserved for the oligarchs, while workers suffer continued austerity. In the largest transfer of wealth announced, Sunak slashed by 60 percent surcharges on bankers’ profits that were due to be enacted in 2023. This measure alone saves the banks £4 billion in taxes over five years.

The initial surcharge, along with a planned increase in corporation tax for the banks, would have meant banks paying a combined rate of 33 percent. With the new measures, including the cutting of the profit surcharge of 8 percent to 3 percent, the banks will pay a combined rate of just 28 percent.

The *Financial Times* wrote approvingly last week of his “effort to keep the City of London competitive on a global scale in the wake of Brexit.”

For public consumption, however, the media gave the impression of Sunak carrying out a “£150bn splurge on public services” (*Daily Mail*) as part of Prime Minister Boris Johnson’s pledge to “level up” the country.

Sunak’s first job was in fact to warn everyone of “the importance of strong public finances,” under conditions in which “Coronavirus left us with borrowing higher than at any time since the Second World War.” He unveiled a ‘Charter for Budget Responsibility’ which “sets out two fiscal rules which will keep this government on the path of discipline and responsibility. First, underlying public sector net debt… excluding the impact of the Bank of England… must, as a percentage of GDP, be falling. Second, in normal times the state should only borrow to invest in our future growth and prosperity.”

Borrowing for public spending would cease as “Everyday spending must be paid for through taxation.” This was necessary to balance the books for day-to-day spending by the end of the parliament in 2024-25.

Central to the new fiscal tightening was his plan to “keep welfare spending on a sustainable path.” This month, the government ended the £20 per week uplift in the Universal Credit welfare benefit payment in place since the beginning of the pandemic. This has thrown millions of people into desperate financial circumstances overnight, the largest one-off welfare spending cut in British history, taking £6 billion a year away from the poorest households.

Due to criticism, Sunak made a few token changes to the Universal Credit system in the budget. At best these would only benefit a small minority of the around six million people claiming the benefit, and then only by a small amount. Announcing a cut to the UC taper rate, taxing claimants 63p in the pound on anything they earn over their base level of benefits, to a rate of 55p, Sunak hailed it as £2 billion gift to the lowest-paid workers.

This still means that the poorest in society lose a collective £4 billion a year, or a £1,040 per year cut for claimants. The change only affects less than a third of those who lost the £20 uplift. The *Independent* noted that "a lone parent on minimum wage part-time will still lose £361 next year."

Sunak announced an increase in the minimum wage of just 6.6 percent, with those aged 23 and over expecting £9.50 per hour. This will help only 2 million workers out of a workforce of over 30 million people. Moreover, such a small increase will be cancelled out by inflation with the RPI inflation rate already at 4.9 percent and expected to soon top 5 percent. Sunak acknowledged that even the CPI rate of inflation, which doesn't include rising housing costs, would top 4 percent next year.

Much of the spending announced by Sunak was capital spending and very little was actual new money. The *Financial Times* noted, "An £11.5bn allocation to build up to 180,000 new affordable homes, £10bn to 'unlock 1m new homes' and the £5bn cladding fund—all cited by Sunak on Wednesday—had each been previously announced." One example, which will have tragic repercussions, is the pittance of £5 billion for spending to remove dangerous cladding on residential buildings. The amount required is up to £50 billion, and the £5 billion that Sunak hailed in the budget is the fourth time that this measure has been announced already!

Sunak's budget fraud was punctured by sober analysis of documents accompanying the budget statement by the Institute for Fiscal Studies (IFS) and the OBR. With the huge increase in the cost of living, including mammoth rises in energy prices over the last months, the OBR noted that real household disposable incomes, after inflation is factored in, fell by 0.6 percent last year. This year it will rise by barely 1.1 percent year and in 2022 will increase by an even smaller 0.3 percent. As reported by the *Guardian*, the OBR estimates that "on a per person basis, real household disposable incomes only return to pre-pandemic levels in the latter half of 2023, with growth of 1.5% that year."

Even this is optimistic, with more than a decade of austerity having already vastly reduced workers' disposable income. Commented on the result of a social counter-revolution, the IFS tweeted that "real wages are expected to remain stagnant for 20 years. In 2026, wages are forecast to be £11.70 lower than if the pre-2008 trend in wage growth had continued."

Noting the impact of the two budgets this year and the NIC tax rises being imposed, the IFS wrote, "Rises in national insurance contributions and (through a freeze to the personal allowance) income tax in April will come on top of rising inflation, taking a significant swipe at people's spending power.

"According to the new forecasts, over the next year a median earner will find their pre-tax pay just about outpaces inflation, but after the extra income tax and NICs due their take-home pay will fall by about 1%, or £180 per year, in real terms."

The Resolution Foundation assessed that Britain was "still in the midst of its weakest decade for pay growth since the 1930s," and that real wages would continue to fall to 2024. The think tank said that the measures of the Johnson government, including Wednesday's budget, would raise household tax bills by £3,000 on average by 2027.