All Right Now?

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All Right Now is a 1970 feelgood hit single by English rock band Free based on feeling good.

Budget statements are about, primarily, raising income through taxes and judicious giving to stimulate the economy.

The chancellor in delivering a budget sends out signals about the government's priorities so as to curry favour among targeted groups who they hope, feeling better off, will vote for them in the next general election (Bet, 2023).

Last week chancellor Jeremy Hunt stressed in his budget statement that the intention is in achieving growth. The entirety of Hunt's budget speech is available on the government's website https://www.gov.uk/government/speeches/spring-budget-2023-speech

In his introduction to what was explicitly stated as a 'budget for growth', Hunt emphasised the importance of ensuring "stability and sound money," which, he explained, since mid-October, had allowed 10-year gilt rates to fall and debt servicing costs to decrease.

Significantly, Hunt stressed, mortgage rates were lower than when he took over and the curse of high inflation which is causing so much misery "has peaked" (Gov, 2023).

Hunt will have been aware his immediate predecessor, Kwasi Kwarteng, in delivering the now notorious 'mini budget' last September, made a similar claim.

Kwarteng's belief in 'trickle-down' economics, the theory that should high-income earners keep more of their income through reduced taxes, everyone benefits as a consequence ofadditional income resulting in increased consumption, a belief which is much contested, proved his undoing. Kwarteng's sacking by Truss in a desperate attempt to save her premiership, resulted in Hunt's return to the frontbenches.

Stability and presenting policy giving the impression of a more considered approach to the economy was essential to calm financial markets whose reaction to Truss and her mini budget proved fatal to her premiership.

Sunak and his chancellor need to convince voters that they could improve the economy and ensure people feel more optimistic about their financial future.

In confirming continuance of the energy price guarantee at £2,500 for another three months, as well as ending that the scandal of those using prepayment meters, usually the poorest in society, paying more, represents common sense as wholesale energy costs are falling. Though this initiative won't make the majority of people feel better off, it stops us experiencing what would have been an unwelcome hike in energy costs just as we emerge from winter.

One issue that Hunt specifically addressed was the number not working.

Staggeringly, according to the BBC, almost a quarter of people of working-age "around 10 million people" are not employed (Cuffe and Barrett, 2023). We're used to hearing about the fact that unemployment at 1.3 million (December 2022), a rate of 3.7%.

Given that there are 1.1 million of job vacancies on offer, 328,000 more than when compared to the pre-pandemic period of between January and March 2020, there would appear to be ample scope to encourage people from the 10 million people who, including the unemployed, are collectively classed as 'economically inactive' (Jordan, 2023).

There are a variety of reasons why people do not work which can included illness and early retirement for those over 50 (around 3.5 million), caring responsibilities (there are about 1.1 million 25- to 49-year-olds), and those in education. Last December, a House of Lords report drew attention to the fact that early retirement as well as rising levels of sickness had increased the number of those over 50 who classed as economically inactive.

Many claim this is a loss of collective wisdom among those with vast experience.

Crucially, a smaller workforce undermines the UK's ability to improve the economy and, in turn, reduces the amount of tax received. The consequence is that revenue so essential for the effective functioning of society is lessened with obvious implications for funding of the National Health Service currently experiencing the toxic combination of long waiting lists and disaffected staff who've been engaged in industrial action.

Hunt sought to address the need to increase the number of people not active through incentives.

One such incentive was the intention to provide additional childcare.

In increasing funding to nurseries providing free childcare by £204 million from September, rising to £288 million next year, Hunt hopes to improve the opportunity that working families with children have in gaining employment. By also announcing that 30 hours of free childcare for all under-fives immediate when maternity care ends will be available, Hunt hopes to increase the number of people, primarily females, available for work.

It's notable that initial reaction to this announcement was positive. Moreover, some claimed this was a case of 'shooting the Labour Party's fox' in that childcare is central to its likely manifesto for the next general election.

However, there are many who speculate that the impact of Hunt's announcement on childcare won't have the positive impact he believed possible.

Childcare is so expensive quite precisely because of the costs of providing it. Those organisations involved in childcare are being squeezed by the increasing price of energy and competition for staff which is causing wage rates to increase.

As such, Hunt's announcement won't help because what's being offered is unlikely to cover the additional costs. As Peaker writes in the *Guardian*, "it's not really clear why or how anyone would deliver them" (2023). Stalwart childcare campaigner, Labour MP Stella Creasy, quoted in the New Statesman states Hunt's announcement is "…not a solution"(Ferber, 2023).

Another major announcement by Hunt in last week's budget, the ending of the limit on the amount in a personal 'pension pot', as well as increasing the annual tax-free allowance by 50% from £40,000 to £60,000, which he specifically explained was intended to concern expressed that many well-paid staff within the NHS were retiring early has also generated criticism. As Allegretti reports, in 2022, "only 100 hospital doctors left NHS" due to the tax implications on their pension.

In stating this pension tax reform would incentivise "our most experienced and productive workers to stay in work for longer"as well as "simplify[ing] our tax system, taking thousands of people out of the complexity of pension tax" many have pointed out that only those who earn very high wages will benefit.

It's notable that independent financial watchdog the Office for Budget Responsibility (OBR) estimate only 15,000 people will remain in the workforce as a result of the much wider pension changes (they agree few will doctors among that number).

The *Financial Times* reports that according to thinktank the Institute for Fiscal Studies (IFS), the cost of the changes to pensions announced by Hunt, around £4 billion (Jones, 2023),will be £100,000 per job (Strauss, 2023).

For good measure Strauss also reports that the OBR believe that overall package of cost of measures to encourage workers back into work which includes childcare support and support, will be arounds £7 billion each year and raise employment by 110,000 in the years 2027-28.

This means each new job costs almost £70,000.

What is particularly notable is that in not increasing the rates at which revenue is paid, Hunt's announcements will mean we're collectively going to pay more tax.

The overall effect is that we'll feel worse off as wage increases are lagging behind inflation which is still in excess of 10%.

Moreover, as a consequence of average UK real income being mostly unchanged since just before the Global Financial Crisis according to the Office for National Statistics, households are no better off. Indeed, as the OBR predicts, this will still be the case by 2027-28 meaning a large proportion of UK citizens will have seen no improvement for two decades (Romei, 2023).

This somewhat pessimist analysis is backed up by the Resolution Foundation the thinktank which campaigns for an improved standard of living for low- and middle-income families (Inman, 2023).

As the Resolution Foundation contend, because of the "biggest energy and inflation shock since the 1970s" this decade will be "disastrous" as incomes, due to increased take in taxes resulting from 'fiscal drag' as limits are frozen. Their prognosis is that the economy will remain in a "deep funk" whereby, as people experience public services cuts, and are encouraged into work, become poorer.

If more evidence were needed of quite how dreadful things are, the BBC working in collaboration with the Resolution Foundation for a Panorama programme shown on BBC One on Monday show, "stalling wage growth since 2008" mean a typical worker is £11,000 a year worse off (Rawlinson, 2023), a situation Torsten Bell, its chief executive, considers "almost completely unprecedented".

Notably, a poll by Ipsos of 6189 adults indicates that two-thirds of them believe economic prospects will worsen this year.

British productivity lags behind all other major developed competitors meaning UK workers earn less per capita than other economies (BBC, 2023).

The problem Jeremy Hunt was attempting to confront in his budget was a lack of capital investment by British business that's been is made worse by the vicissitudes caused by departure from the European Union.

In ‘How has Brexit affected business investment in the UK?’, Haskel and Martin estimate that UK GDP would be 1.3% higher, an additional £29 billion, had business investment been sustained at the rate, poor as it may have been compared to major competitors, prior to Brexit (2023).

Haskel and Martin make the point that lost investment means every household, there are around 28 million, are over £1,000 poorer.

As the Editorial Board of the FT asserted recently, there’s long been a problem with business spending on plant and machinery which means the percentage of GDP dedicated to such investment has “lagged well behind other G7 nations” (FT, 2023).

Jeremy Hunt was in announcing changes to fiscal incentives to business, undoubtedly cognisant of the need to improve investment as a key driver to growth.

Pointedly, in its conclusion to what’s needed to improve business investment, the FT argue that stability is essential and that “short-term attempts to jolt investment”, though tempting for any government, must be replaced by a “holistic approach that supports business growth and confidence over the long-term” (*ibid*).

As always, veteran *Observer* economics expert and commentator William Keegan make the persuasive argument that if growth really is the objective Hunt wants to achieve, he should consider making the case for re-joining the EU (2023).

So, it seems, a lot of money is likely to be spent to achieve results which are not terribly impressive when judged in terms of the value of investment. Seminal *Times* economics commentator David Smith believes that what was offered last week represents neither a plan for growth nor one for investment (2023).

At present that looks highly unlikely. Instead, we’ll see the next general election fought on the stated intention of both major parties that Brexit can be made to work to the UK’s economic advantage.

Whether what we got last week will produce the levels of investment and growth so desperately needed remains uncertain.

What seems certain is that living standards are not going to improve anytime soon.

Multimillionaire Jeremy Hunt and his boss, even richer Rishi Sunak, will be well aware of the tendency for voters who feel worse off, having been promised Brexit would improve their prospects, to use votes at the next general election to express their displeasure.

In the short-term local elections taking place on 4th May are likely to be a test of how popular the government’s economic policies are.

If last week’s budget was intended to improve people’s feeling to ensure they feel ‘all right now’, the odds are it’s probably failed.

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