A political budget- but will it work?

Vicky Pryce, Senior Fellow, BCU Centre for Brexit Studies

The budget, possibly the last one before the forthcoming general election later this year was duly delivered on March 6. Much was pre- tried and/or pre- leaked. The expected 2p cut in the rate of national insurance contributions (NIC), adding to the 2% cut in the autumn statement, duly came. The two cuts together are estimated to boost real disposable incomes by some £900 this coming financial year for payroll employees, and by some £600 for the self-employed - who pay less anyway. However, because of the continued freezing of personal allowances the Resolution Foundation is calculating that by the time of the general election at the end of 2024, household real disposable incomes will be lower than they were at the time of the 2019 elections.

The hoped for improvement for the average household in 'well- being' that the Conservatives hoped for in advance of the elections will probably be more dependent on how fast interest rates come down and whether inflation- and hence cost of living pressures-ease, rather than because of the NIC cuts. The deteriorating state of public services is weighing heavily on people 's minds[i], and that doesn't seem to have changed as a result of the budget. And the expected improvement in growth in the economy of just 0.8% in 2024, though better than the 0.1% rise in GDP achieved in 2023, is nothing to shout home about. [ii]

In the event the budget announcements seem to have triggered even more controversy on this topic. The right argue that taxes have not been cut enough and point to the fact that the tax take is still due to rise to 37.1% of GDP by 2028-28 compared to some 33% pre pandemic. [iii] The Chancellor and then the Prime Minister both spoke of their ambition to see the tax burden reduced in future years on the back of hopefully achieving higher growth as a result of the measures just announced. Indeed, they have both since also expressed a wish to see the NIC, which they refer to as 'a double tax on workers' abolished at some stage.

On the other hand, those concerned about the implications of what has been announced from a re-distributional point of view and in relation to debt sustainability are worried on a number of fronts. The NIC cut leaves those in lower pay and those of pensionable age comparatively worse off. And the available headroom for reducing the debt to GDP ratio at the end of the five-year period has shrunk considerably. And even that is achieved only with 'heroic' assumptions on tax and spending.[iv]

Yes there are some offsets to the £5b hit to government finances from the continued freezing of fuel duty which was meant to reverse the 5% cut in March 2022 and be escalated by inflation in August raising an extra £5b a year[v]; the roughly £1b a year investment in the NHS through the forecast period; the lost revenues from the new NIC cuts of about £10b a year; and a more generous regime for child benefits as well as the raising of the VAT threshold for small businesses and the self-employed. These include the abolition of the tax regime for nom-doms (to be replaced by a less generous scheme), taxes on e-cigarettes, higher air passenger duty for business travellers, abolition of tax loopholes for short term lets; and an extension by a year of the windfall tax on North Sea oil and gas companies.

But many of these revenue raising measures will take time to implement and hence their impact on projected revenues won't be felt until later years. What will be funding the NIC and other tax cuts will be mostly the continued rise in stealth taxes- but more importantly as is assumed in the figures, a saving in spending on public services through 'productivity' improvements. The investment in the NHS is meant to provide some £35b of savings. And an extra £800m invested in productivity elsewhere in the public sector over the five years is meant to unleash even more savings across many departments. The idea is that these improvements will then allow the government to cut tax rates further. A productivity review is due to take place now before the spending review due next tear which will decide allocations for the years after March 2025 which will then determine how the rather small pencilled in 1% rise in current spending will be split between departments.[vi]

However once departments such as the NHS and education, and the commitments on extending childcare provision are met, the so called 'unprotected' government departments – and local government- will see real falls in funding over the next spending period. So, in an election year, and at a time when defence, the justice system, further education and local government are screaming for more resources, and with councils either going bankrupt , raising council tax by record levels, dimming street lights or reducing the frequency of rubbish collection, we have reached the stage where Paul Johnson of the IFS can feel justified to say out loud about tax and spend that :

"The government and opposition are joining in a conspiracy of silence in not acknowledging the scale of the choices and trade-offs that will face us after the election. "They, and we, could be in for a rude awakening when those choices become unavoidable"[vii]

A damning endorsement if there ever was one! Let's hope he is wrong…

Vicky Pryce is a board member at CEBR, Visiting Professor at BCU and King's College London, and former Joint Head of the UK Government Economic Service. Her books include" It's *The economy, Stupid, Economics for Voters'*, with Ross and Urwin.