

## HOW LONG BEFORE “THE GET IT DONE” BUDGET IS UNDONE?

*What left reformists and right populists have in common, their only commonality, is their profound failure to understand capitalist political economy. The Chancellor’s “Blue Sky” budget based on a “Strong and Resilient economy” facing a “temporary medical emergency” is an exercise in delusion. By the Autumn statement it will be history.*

This budget has been presented as a budget fit for working class families and one that ends austerity. Nothing could be further from the truth. Besides healthcare, and it is difficult to determine whether or not there will be any net increase in spending after accounting for the corona virus, there is nothing additional for education, social care, social security and other council spending. Promises for expanding social housing are modest, too little to affect house prices and rents, and certainly too little to undermine the highly financialised housing sector through an increase in supply. Austerity was not about too few roads or fibre optics, but families having to choose between heating and eating while living in sub-standard housing.

The real anti working-class content of the budget lies in its tax proposals. What the reader needs to bear in mind is that all tax represents unpaid labour. When some of that tax is returned to the working class in the form of the welfare state it is reconverted back into paid labour, when for example it is used to provide free healthcare, free social care or free education. The balance remains unpaid labour.

Thus, the key question is the division of tax into its paid and unpaid parts. In other words, how much of taxation is progressive or regressive and how much is redistributed back to the working class. If taxation falls most heavily on the working class and less of it returns to the working-class then taxation is used to redistribute unpaid labour to the capitalist class and their institutions. The key question therefore is this one, did this Budget redirect tax to the working class. If it did, if taxing the rich was used to help the poor, then and only then would austerity come to an end.

The answer is a resonating no. True a glaring tax loophole for the rich (entrepreneurs) was closed, corporate tax rates were frozen, and the lower band for national insurance payments was raised saving the average worker £104 annually, but this was miniscule. In fact, that £104 increase has been eroded by increases to council tax averaging over 4% annually over the last three years. There was much fanfare about the raising of the National Insurance (N.I.) threshold. But what was not touched nor mentioned was the upper limit. Most workers pay a 12% N.I. rate, but those earning above £50,000 only pay 2% on any pay above this amount. Thus, for the majority of workers the real tax rate is 32% (20% income tax + 12% N.I.) while for those earning above £50,000 the marginal tax rate is 42% and for those earning above £150,000 it is 47%. In other word the tax bands are more compressed than meets the eye.

No attempt was made to expand the tax rates. Nor was the income tax on high earners increased. In fact, pension tapering relief was raised to £200,000 from £110,000. Nor were the iniquitous council tax bands altered. Nor was there a mansion tax. Nor was there a consumption tax on luxury spending. The list of tax omissions goes on. In short, the most criminal aspect of austerity, the additional ten-year squeeze on the poor to make room for the tax cuts enjoyed by the rich and their corporations, was not reversed.

Then there was the issue of how to pay for increased spending, purportedly the most since 1992. Increased government spending can be paid for in three ways. Through the anti-working-class agency of borrowing from the rich. Or through taxing the rich. Or through the agency of simply printing money (MMT). Of the three, borrowing is the worst option from the point of view of the worker. For two reasons. Firstly, these borrowings have to be repaid in the future and can only be repaid by additional

taxation. Secondly interest has to be paid on these borrowings during their lifetime which guarantees an income to these rentiers, and which is also paid for out of tax.

The second option is to simply tax the rich. This avoids repaying the capitalists, which means they become poorer in terms of their capital and income. But this the budget absolutely failed to do. Instead it rests on the use of borrowing, justified by the low prevailing interest rates, thus avoiding the Tory criticism of being imprudent. Thus, in sum, a thoroughly Tory budget.

### **Of blue skies and fissured land.**

The Chancellor's presentation yesterday was surreal. Richi Sunak spoke in strange tongues resonating with Labourism egged on by a braying Tory congregation in front of a prime minister wearing a smug and proud expression. Yes, the lying scribbler was savouring his triumph as captain of his rampaging team. However, behind the back of Chancellor the stock market was crumbling faster than the mortar holding up the Palace of Westminster. So, while the Chancellor repeatedly cried "I" and "getting it done" to the delight of the Tories who like well-trained hounds always respond to the word "done", dealers in the City of London were feeling the fear as ice cold sweat trickled down their spines.

That is why the projections of the Chancellor and the OBR count for nothing. The Chancellor promised the magnificent sum of \$30 billion in increased spending. He will be lucky if he has change from the 300 £billion he will need to fork out when all this is over. Johnson will have his Cummings inspired wish of levelling the country, only it will not be the North that will be levelled up, it will be the South that is levelled down.

This budget had an element to it which in normal times would have been productive. It was prepared to fund infrastructure, investment and R&D that would have made a difference to output. For example, UK government investment into research would have put it in the top quarter of OECD countries, above China for example. The problem facing the Tories is that it is better to spend money putting out the fire in your house, rather than putting it aside to renovate it, if you still want to have a house left to live in.

The reason this virus has had such a large economic impact is not the virus itself. Had the virus occurred when the world economy was on the up, it would have merely delayed the ascent. But accruing when the world economy was on the down, it accelerated the fall. The UK economy was subsiding before the virus hit home. Populists like Johnson and Trump cannot admit to what is really happening to their economy. The British economy has been skating on the edge of recession for the last three quarters. Growth was the lowest since 2012. What growth there was, was based on retail sales, health and education spending, fragile. This is the reason the virus is having such an economic impact. It was a bubble looking for a spiky virus.

I will not dignify the budget by commenting on its proposals nor the Office for Budget Responsibility projections, except to say they will all be reeled back. The reel budget is not this one, but the Autumn statement. These proposals/projections are not worth the paper they are written on.

Even if they were accurate yesterday, they will be inaccurate today as markets continue their plunge, and, for the first time, liquidity evaporates from the markets. Tomorrow they will be even more inaccurate, and at this rate of fall, it looks likely that by Friday's closing bell, markets will be down over 30%, the point at which the FED may decide to reinstate QE5 by buying shares. (I intend to publish a more comprehensive assessment of the world economy over the weekend. Suffice to say, the fall is sufficient now to have destroyed the capital gains which have fuelled spending these last 9 years. The annual loss for the S&P has just passed the critical 10%. European market fell 11%, there worst daily

fall ever. We are now approaching the looping effect (phase 2) where the collapse of the bubbles, precipitate recession and recession feeds back into the markets. Dealers who were speaking of a 10% fall being excessive two weeks ago, are now talking of a 40% fall in share prices and a 20% in profits this year. Clearly the three-month perspective is gone.)

In the end, the outgoing Labour leadership may be heaving a sigh of relief that they lost the last election. Who would want to drive a car on an oily road, in a thunderstorm without wipers, a few feet from the cliff edge? Only a Boris and a Dominique, who never realised their ambitions were too large for their talents. Boris should cherish yesterday, it was the high point of his career, he may find in future he is just as disposable as his dog.

Brian Green, 12<sup>th</sup> March 2020